

FRESH START RECOVERY CENTRE
Financial Statements
Year Ended December 31, 2019

FRESH START RECOVERY CENTRE
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Year Ended December 31, 2019

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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, 2019, 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, 2019, 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, 2019, current assets, and net assets as at December 31, 2019. Our audit opinion on the financial statements for the year ended December 31, 2018 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 19, 2020


Cremers & Co. Chartered Accountants LLP

FRESH START RECOVERY CENTRE**Statement of Financial Position****December 31, 2019**

	2019	2018
ASSETS		
CURRENT		
Cash	\$ 503,177	\$ 392,111
Restricted cash	581,983	522,806
Accounts receivable	263,308	601,778
Goods and services tax recoverable	13,450	17,432
Prepaid expenses	7,304	158,910
Deposits on property and equipment	-	57,000
	<u>1,369,222</u>	<u>1,750,037</u>
PROPERTY AND EQUIPMENT (Notes 3, 4)	<u>11,214,984</u>	<u>18,784,404</u>
	<u>\$ 12,584,206</u>	<u>\$ 20,534,441</u>
LIABILITIES AND NET ASSETS		
CURRENT		
Bank indebtedness	\$ 554,825	\$ 539,501
Accounts payable	102,924	158,600
Accrued liabilities for capital projects (Note 4)	-	645,647
Current portion of long term debt	-	1,191
	<u>657,749</u>	<u>1,344,939</u>
NET ASSETS		
Operating Fund	634,316	702,483
Property and Equipment Fund	<u>11,292,141</u>	<u>18,487,019</u>
	<u>11,926,457</u>	<u>19,189,502</u>
	<u>\$ 12,584,206</u>	<u>\$ 20,534,441</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, 2019

	2019	2018
OPERATING FUND REVENUES		
Accommodation	\$ 1,627,365	\$ 1,400,423
Fundraising and donations	1,616,687	1,055,726
Alberta Health Services - Addiction and Mental Health funding	84,964	113,286
Restaurant and food truck sales	28,182	19,723
Interest	5,319	162
	<u>3,362,517</u>	<u>2,589,320</u>
OPERATING FUND EXPENDITURES		
Salaries and wages	2,244,676	2,014,969
Fundraising expenses	568,191	179,140
Program supplies	239,142	222,445
Utilities, phone and internet	147,959	125,586
Office and administrative	128,137	134,055
Repairs and maintenance	113,183	88,486
Travel and vehicle	79,611	77,747
Insurance	40,281	39,261
Interest and bank charges	38,864	44,737
Professional fees	35,015	10,506
Consultant fees	-	20,310
	<u>3,635,059</u>	<u>2,957,242</u>
OPERATING FUND DEFICIENCY	<u>(272,542)</u>	<u>(367,922)</u>

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FRESH START RECOVERY CENTRE
Statement of Revenues and Expenditures *(continued)*
Year Ended December 31, 2019

	2019	2018
PROPERTY AND EQUIPMENT FUND REVENUES		
Alberta Social Housing funding	426,986	1,649,484
Other property and equipment funding	275,000	375,000
Interest	633	1,220
Gain on disposal of property and equipment	-	2,834
Restricted contributions for Memorial Cafe	-	250,000
	<u>702,619</u>	<u>2,278,538</u>
PROPERTY AND EQUIPMENT FUND EXPENDITURES		
Amortization of property and equipment	184,465	199,765
Interest expense	-	2,186
Transfer of property and equipment to the Province of Alberta <i>(Note 4)</i>	<u>7,508,657</u>	<u>-</u>
	<u>7,693,122</u>	<u>201,951</u>
PROPERTY AND EQUIPMENT FUND EXCESS (DEFICIENCY)	<u>(6,990,503)</u>	<u>2,076,587</u>
TOTAL EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (7,263,045)</u>	<u>\$ 1,708,665</u>

FRESH START RECOVERY CENTRE
Statement of Changes in Net Assets
Year Ended December 31, 2019

		Operating Fund	Property and Equipment Fund	2019	2018
NET ASSETS - BEGINNING OF YEAR	\$	702,483	\$ 18,487,019	\$ 19,189,502	\$ 17,480,837
Excess (deficiency) of revenues over expenditures		(272,542)	(6,990,503)	(7,263,045)	1,708,665
Interfund transfer (Note 9)		204,375	(204,375)	-	-
NET ASSETS - END OF YEAR	\$	634,316	\$ 11,292,141	\$ 11,926,457	\$ 19,189,502

FRESH START RECOVERY CENTRE**Statement of Cash Flows****Year Ended December 31, 2019**

	2019	2018
OPERATING ACTIVITIES		
Total excess (deficiency) of revenues over expenditures	\$ (7,263,045)	\$ 1,708,665
Items not affecting cash:		
Amortization of property and equipment	184,465	199,765
Gain on disposal of property and equipment	-	(2,834)
Transfer of property and equipment to the Province of Alberta	7,508,657	-
	<u>430,077</u>	<u>1,905,596</u>
Changes in non-cash working capital:		
Restricted cash	(59,177)	3,718,944
Accounts receivable	338,470	(436,318)
Accounts payable	(55,676)	67,900
Accrued liabilities for capital projects	(645,647)	(3,097,074)
Prepaid expenses	151,606	(148,821)
Goods and services tax payable	3,982	(44,266)
	<u>(266,442)</u>	<u>60,365</u>
Cash flow from operating activities	<u>163,635</u>	<u>1,965,961</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(123,702)	(2,016,115)
Proceeds on disposal of property and equipment	-	517,571
Deposits on property and equipment	57,000	-
Cash flow used by investing activities	<u>(66,702)</u>	<u>(1,498,544)</u>
FINANCING ACTIVITIES		
Advances (repayment) of bank indebtedness	15,324	(375,000)
Repayment of long term debt	(1,191)	(6,900)
Cash flow from (used by) financing activities	<u>14,133</u>	<u>(381,900)</u>
INCREASE IN CASH FLOW	<u>111,066</u>	<u>85,517</u>
Cash - beginning of year	<u>392,111</u>	<u>306,594</u>
CASH - END OF YEAR	<u>\$ 503,177</u>	<u>\$ 392,111</u>

FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2019

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.

Cash and cash equivalents

Cash includes cash and cash equivalents. Cash equivalents are investments in treasury bills and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

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FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2019

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

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.

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.

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FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2019

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

Financial instruments

Financial instruments are recorded at fair value when acquired or issued, with the exception of related party transactions that are measured at the carrying amount or exchange amount, as appropriate. 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 are recognized as an expense in the period incurred for all 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.

All financial assets and financial liabilities are measured at amortized cost, unless otherwise noted.

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.

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	\$ 1,300,000	\$ -	\$ 1,300,000	\$ 3,162,730
Construction in progress	-	-	-	4,141,756
Leasehold improvements in progress	389,375	-	389,375	322,970
Buildings	9,771,126	662,599	9,108,527	10,725,490
Furniture and equipment	946,929	648,442	298,487	301,079
Motor vehicles	190,163	120,659	69,504	99,292
Computer equipment	189,168	140,077	49,091	31,087
	<u>\$ 12,786,761</u>	<u>\$ 1,571,777</u>	<u>\$ 11,214,984</u>	<u>\$ 18,784,404</u>

FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2019

4. NEW FACILITY FUNDING

During the 2017 fiscal year the Centre began construction on two major housing projects on behalf of the Government of Alberta's Housing & Seniors Ministry. These two residential facilities have been constructed and provide secure and affordable post treatment housing for those in long term continuing recovery. Both buildings are complete. The first building provides 18 additional post treatment housing spaces. The second building provides 28 additional post treatment housing spaces and was substantially completed in March of 2019.

Alberta Social Housing committed \$7.5 million in total to the two residential facilities. Funding received relating to these projects was reported in the Property and Equipment Fund as it relates to the flow of funding from the Government of Alberta to the Centre. In 2017 the Government of Alberta under the NDP moved from a grant to an investment funding strategy and as a result ownership of the two residential facilities was transferred to the Government of Alberta in 2019. A lease agreement is expected to be in place between the Centre and the UPC Government of Alberta in 2020 to ensure the properties maintain their stated use for a minimum number of years, that there are zero lease amounts, and to ensure any major capital expenses related to the now government owned asset not fall on the Centre. The Centre is responsible for all operational activities associated to the new housing facilities.

5. OTHER FACILITIES

The Centre was in the process of renovating and leasing a building to include a cafe intended to provide employment and training opportunities for people in recovery. This project was discontinued during the current year due to internal City of Calgary delays. The Centre is in the early stages of negotiations with the City of Calgary to determine what assets will be transferred to the City. As of the Audit Report date, no commitments have been made by either party and negotiations are ongoing. Accordingly, the remaining assets relating to the project totaling \$470,802 continue to be presented under the Centre's property and equipment at December 31, 2019.

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, 2019.

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, and accounts payable.

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FRESH START RECOVERY CENTRE

Notes to Financial Statements

Year Ended December 31, 2019

6. FINANCIAL INSTRUMENTS *(continued)*

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 bank indebtedness.

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

7. 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.

	2019	2018
REVENUES		
Restaurant and food truck sales	\$ 28,182	\$ 19,723
EXPENDITURES		
Salaries and wages - food truck	43,796	48,915
Insurance - cafe	3,985	4,877
Travel and vehicle - cafe	3,197	10,270
Professional fees - cafe	1,537	1,538
Restaurant Supplies	715	5,751
Utilities, phone and internet	542	622
Office and administrative - cafe	296	16,100
Repairs and maintenance	196	329
Consultant fees	-	20,310
	<u>54,264</u>	<u>108,712</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>\$ (26,082)</u>	<u>\$ (88,989)</u>
OPENING CASH BALANCE	\$ 338,385	\$ 439,817
Deficiency of revenues over expenses	(23,832)	(88,989)
Changes in non-cash working capital		
Deposits	-	-
Accounts payable	(2,372)	(47,321)

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FRESH START RECOVERY CENTRE**Notes to Financial Statements****Year Ended December 31, 2019**

GST payable	4,163	2,023
Purchases of property and equipment	(59,405)	(217,145)
Contributions	-	250,000
	<hr/>	<hr/>
ENDING CASH BALANCE	\$ 256,939	\$ 338,385

8. COMPARATIVE FIGURES

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

9. 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.
