

Financial Statements of

**ABC Ltd OF ALBERTA**

Year ended December 31, 2016

---



KPMG LLP  
2200, 10175 - 101 Street  
Edmonton AB T5J 0H3  
Canada  
Telephone (780) 429-7300  
Fax (780) 429-7379

## INDEPENDENT AUDITORS' REPORT

To the Members of ABC Ltd of Alberta

We have audited the accompanying financial statements of ABC Ltd Industries of Alberta, which comprise the statement of financial position as at December 31, 2016, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Ltd of Alberta as at December 31, 2016, 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.

*KPMG LLP*

Chartered Professional Accountants

April 18, 2017  
Edmonton, Canada

# **ABC Ltd OF ALBERTA**

## Financial Statements

Year ended December 31, 2016

Statement of Financial Position	1
Statement of Operations	2
Statement of Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5

# ABC Ltd OF ALBERTA

## Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>ASSETS</b>		
Current		
Cash	\$ 1,815,125	\$ 1,392,919
Investments (note 3)	450,777	332,792
Accounts receivable	682,354	412,864
Prepaid expenses, deposits and other	212,712	41,351
	<b>3,160,968</b>	<b>2,179,926</b>
Investments (note 3)	<b>386,680</b>	<b>223,345</b>
Prepaid expenses and deposits	<b>392,444</b>	<b>340,619</b>
Property and equipment (note 4)	<b>3,789,429</b>	<b>2,320,701</b>
	<b>\$ 7,729,521</b>	<b>\$ 5,064,591</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (note 6)	\$ 2,409,959	\$ 1,841,350
Deferred revenues	50,140	56,860
Deferred contributions (note 7)	415,989	412,414
Current portion of obligation under capital lease (note 9)	1,887	19,235
Current portion of long-term debt (note 10)	68,994	-
	<b>2,946,969</b>	<b>2,329,859</b>
Deferred capital contributions (note 8)	<b>24,134</b>	<b>59,795</b>
Obligations under capital lease (note 9)	-	1,887
Long-term debt (note 10)	<b>331,006</b>	<b>-</b>
Straight-line rent and tenant inducements (note 11)	<b>1,895,247</b>	<b>1,070,454</b>
	<b>5,197,356</b>	<b>3,461,995</b>
Net assets	<b>2,532,165</b>	<b>1,602,596</b>
	<b>\$ 7,729,521</b>	<b>\$ 5,064,591</b>

Credit facility (note 5)  
Commitments (note 12)

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_, Director

\_\_\_\_\_, Director

# ABC Ltd OF ALBERTA

## Statement of Operations

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Revenues		
Commercial	\$ 21,596,330	\$ 21,426,431
Provincial contract fees (note 7)	2,384,903	2,421,110
United Way	164,928	162,491
Donations, grants and contributions	51,473	58,258
Amortization of deferred capital contributions	35,661	68,907
Unrealized gain on investments	6,320	8,611
Interest revenue	5,393	421
	<b>24,245,008</b>	<b>24,146,229</b>
Expenses		
Human resources (note 16)	14,064,283	14,168,964
Occupancy (note 16)	6,119,256	5,843,996
Other operating (note 16)	1,814,635	1,923,848
Amortization of property and equipment	686,287	705,158
Materials (note 16)	630,978	436,912
	<b>23,315,439</b>	<b>23,078,878</b>
Excess of revenues over expenses	\$ 929,569	\$ 1,067,351

See accompanying notes to financial statements.

# ABC Ltd OF ALBERTA

## Statement of Changes in Net Assets

Year ended December 31, 2016, with comparative information for 2015

<b>2016</b>	Unrestricted	Invested in property and equipment	<b>Total</b>
Net assets (deficiency), beginning of year	\$ (85,222)	\$ 1,687,818	\$ <b>1,602,596</b>
Excess (deficiency) of revenues over expenses	1,401,940	(472,371)	<b>929,569</b>
Investment in property and equipment, net	(1,057,946)	1,057,946	-
Net assets, end of year	\$ 258,772	\$ 2,273,393	\$ <b>2,532,165</b>

<b>2015</b>	Unrestricted	Invested in property and equipment	<b>Total</b>
Net assets (deficiency), beginning of year	\$ (1,018,905)	\$ 1,554,150	\$ 535,245
Excess (deficiency) of revenues over expenses	1,540,461	(473,110)	1,067,351
Investment in property and equipment, net	(606,778)	606,778	-
Net assets (deficiency), end of year	\$ (85,222)	\$ 1,687,818	\$ 1,602,596

See accompanying notes to financial statements.

# ABC Ltd OF ALBERTA

## Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	\$ 929,569	\$ 1,067,351
Amortization of property and equipment	686,287	705,158
Straight-line rent (note 11)	286,744	(128,332)
Amortization of deferred capital contributions (note 8)	(35,661)	(68,907)
Amortization of deferred tenant inducements (note 11)	(178,255)	(163,141)
	<u>1,688,684</u>	<u>1,412,129</u>
Change in non-cash operating working capital		
Accounts receivable	(269,490)	(204,021)
Prepaid expenses, deposits and other	(171,361)	(6,941)
Non-current prepaid expenses and deposits	(51,825)	(7,322)
Accounts payable and accrued liabilities	568,609	(77,606)
Deferred revenues	(6,720)	(1,042)
Deferred contributions	3,575	355,143
	<u>1,761,472</u>	<u>1,470,340</u>
Financing activities:		
Repayment of obligations under capital lease	(19,235)	(17,800)
Tenant inducement received (note 11)	716,304	98,400
Proceeds from long-term debt (note 10)	400,000	-
	<u>1,097,069</u>	<u>80,600</u>
Investing activities:		
Unrealized gain on investments	(6,320)	(8,611)
Purchase of investments	(275,000)	-
Purchase of property and equipment	(2,155,015)	(687,378)
	<u>(2,436,335)</u>	<u>(695,989)</u>
Net increase in cash	422,206	854,951
Cash, beginning of year	<u>1,392,919</u>	<u>537,968</u>
Cash, end of year	\$ <u>1,815,125</u>	\$ <u>1,392,919</u>
Supplemental cash flow information:		
Cash interest paid	\$ 16,399	\$ 10,628
Cash interest received	5,393	421

See accompanying notes to financial statements.



# ABC Ltd OF ALBERTA

## Notes to Financial Statements

Year ended December 31, 2016

---

### 1. Purpose of the organization

ABC Ltd of Alberta ("ABC Ltd") is a non-profit entity incorporated without share capital under the Societies Act of Alberta. ABC Ltd is a social enterprise providing individuals with disabilities the opportunity to enhance their lives through meaningful employment. No provision for corporate income taxes has been provided in these financial statements pursuant to Section 149(1)(l) of the Income Tax Act, Canada.

### 2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following policies:

#### (a) Revenue recognition

ABC Ltd follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for the purchase of property and equipment are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired property and equipment. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be estimated and collection is reasonably assured.

Provincial contract fees are recognized as revenue when the related service is performed, the amount to be received or receivable can be reasonably estimated and collection is reasonably assured. United Way and grant revenue is recognized over the term of the related contract or agreement.

Commercial revenues are recognized at the time the service is performed or the contributed item is sold and when reasonable assurance exists regarding the measurement and collection of the consideration received.

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements. In-kind donations of services are recorded at fair value when such value can be reasonably determined.

#### (b) Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts. Bank borrowings are considered to be financing activities.

#### (c) Inventory

Donated materials for resale are not recorded in the financial statements as the fair value of the amounts cannot be reasonably determined. Processing and reconditioning costs applicable to these materials are expensed in the period incurred.

# ABC Ltd OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2016

---

## 2. Significant accounting policies (continued)

### (d) Property and equipment

Purchased property and equipment is recorded at cost. Contributed property and equipment is recorded at fair value at the date of the contribution. Assets acquired under capital leases are amortized over the estimated life of the asset or over the lease term, as appropriate. Repairs and maintenance costs are charged to expense when incurred. Betterments which extend the estimated life of an asset are capitalized. When property or equipment no longer contributes to ABC Ltd's ability to provide services, its carrying amount is written down to its residual value.

Amortization is calculated using the straight-line method, prorated from the date of acquisition, as follows:

Computers and electronic equipment	3 years
Furniture and equipment	10 years
Vehicles	3 years
Leasehold improvements	Term of the lease (maximum of 10 years)

### (e) Employee future benefits

Prior to December 31, 2013, ABC Ltd had a defined contribution plan that was funded by the employee and employer on a shared basis. ABC Ltd also had a defined benefit plan covering certain employees that was funded entirely by ABC Ltd. These plans provided pension, other retirement and post-employment benefits to most of ABC Ltd's employees. Effective December 31, 2013, the Trustee approved the termination of both plans and both plans began to wind-down following approval from regulatory agencies.

Effective January 1, 2014, ABC Ltd established a group Registered Retirement Savings Plan (Group RRSP) that is funded by the employee and the employer on a shared basis. Contributions to the Group RRSP for current service is recognized when the contribution is paid (or payable) based on pay dates.

### (f) Leases and tenant inducements

Leases are classified as capital or operating leases. A lease that transfers substantially the entire benefits and risks incidental to ownership is classified as a capital lease. All other leases are accounted for as operating leases, wherein rental payments are amortized on a straight line basis over the term of the lease including free rental periods.

Tenant inducements are recognized as reductions in rent expense on a straight-line basis over the term of the related lease.

# ABC Ltd OF ALBERTA

## Notes to Financial Statements

Year ended December 31, 2016

---

### 2. Significant accounting policies (continued)

#### (g) Financial instruments

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. ABC Ltd has elected to carry its investments at fair value.

Transactions costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, ABC Ltd determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of expected cash flows, the amount that could be realized from selling the financial asset or the amount ABC Ltd expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

#### (h) Foreign currency translation

Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the statement of financial position date. Gains or losses on translation are included in earnings. Transactions denominated in foreign currencies are translated at the rate of exchange on the date the transaction is completed.

#### (i) Use of estimates

The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, rates and methods to calculate amortization, assets and obligations related to employee future benefits, accrued liabilities related to tenant inducements and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

# ABC Ltd OF ALBERTA

## Notes to Financial Statements

Year ended December 31, 2016

### 3. Investments

	2016	2015
Investment cash account	\$ 123,130	\$ 169
Investment savings account	215,993	214,380
Corporate guaranteed investment certificate with stated annually compounding interest rate of 1.85% with maturity date in 2017	111,654	118,243
	450,777	332,792
Corporate guaranteed investment certificates with stated annually compounding interest rates of 1.9% (2015 – 1.85% - 1.9%) with maturity dates up to 2018	111,680	223,345
RBC guaranteed investment certificate with stated annual interest rate of 0.5% with maturity date in 2017	275,000	-
	\$ 837,457	\$ 556,137

The RBC guaranteed investment certificate (GIC) with a carrying amount of \$275,000 is restricted as cash security for an irrevocable letter of credit issued by ABC Ltd through RBC with the same face value (note 12). The RBC GIC is renewable annually for five years.

### 4. Property and equipment

2016	Cost	Accumulated Amortization	Net Book Value
Computers and electronic equipment	\$ 566,311	\$ 253,964	\$ 312,347
Furniture and equipment	1,569,060	700,124	868,936
Vehicles	249,216	159,751	89,465
Leasehold improvements	5,276,775	2,758,094	2,518,681
Total property and equipment	\$ 7,661,362	\$ 3,871,933	\$ 3,789,429

  

2015	Cost	Accumulated Amortization	Net Book Value
Computers and electronic equipment	\$ 310,223	\$ 210,678	\$ 99,545
Furniture and equipment	1,506,168	815,090	691,078
Vehicles	225,206	101,929	123,277
Leasehold improvements	3,878,101	2,471,300	1,406,801
Total property and equipment	\$ 5,919,698	\$ 3,598,997	\$ 2,320,701

During the year, ABC Ltd wrote off fully amortized assets. Reductions to cost and accumulated amortization were \$413,351 (2015 - \$165,196).

Furniture and equipment includes assets under capital lease with a cost of \$205,970 (2015 - \$258,805) and accumulated amortization of \$157,949 (2015 - \$196,187).

# ABC Ltd OF ALBERTA

## Notes to Financial Statements

Year ended December 31, 2016

### 5. Credit facility

ABC Ltd has a demand operating loan available to a maximum of \$400,000 (2015 – \$700,000) of which \$nil (2015 – \$nil) has been advanced. The facility bears interest at the bank's prime rate plus 0.25% (2015 – prime rate plus 0.25%). The facility is secured by an investment portfolio of securities with a minimum market value of \$400,000 supported by a security agreement constituting a first ranking security interest in the securities.

### 6. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$49,333 (2015 - \$166,620) which includes payroll related taxes.

### 7. Deferred contributions

Deferred contributions relate to the provision of services to Ministries of the Government of Alberta. Changes in deferred contributions are as follows:

	2016	2015
Balance, beginning of year	\$ 412,414	\$ 57,271
Contributions receive/receivable	2,388,478	2,776,253
Contributions recognized as revenue	(2,384,903)	(2,421,110)
Balance, end of year	\$ 415,989	\$ 412,414

### 8. Deferred capital contributions

Changes in deferred capital contributions are as follows:

	2016	2015
Balance, beginning of year	\$ 59,795	\$ 128,702
Contributions received	-	-
Contributions recognized as revenue	(35,661)	(68,907)
Balance, end of year	\$ 24,134	\$ 59,795

# ABC Ltd OF ALBERTA

## Notes to Financial Statements

Year ended December 31, 2016

### 9. Obligations under capital leases

	2016	2015
National Leasing	\$ 1,887	\$ 21,122
Less current portion of obligation under capital lease	(1,887)	(19,235)
	\$ -	\$ 1,887

National Leasing, payable in 60 monthly payments of \$1,641 plus GST, 6.7% nominal annual rate, due January 2017, secured by a pre-crusher with net book value of \$41,974 (2015 - \$50,369).

Future minimum lease payments in the remaining year is as follows:

2017	\$ 1,898
Less amount representing interest	11
	<u>\$ 1,887</u>

### 10. Long-term debt

	2016	2015
Loan payable to Alberta Social Enterprise Venture Fund Inc. bearing interest at 5%, repayable in monthly interest only payments to March 15, 2017, with blended monthly payments of \$9,213 commencing April 15, 2017, maturing on March 15, 2021, secured by a General Security Agreement	\$ 400,000	\$ -
Less current portion of long-term debt	(68,994)	-
	\$ 331,006	\$ -

### 11. Straight-line rent and tenant inducements

	2016	2015
Tenant inducements	\$ 1,090,015	\$ 551,966
Straight-line rent	805,232	518,488
	\$ 1,895,247	\$ 1,070,454

During the year, ABC Ltd received \$716,304 (2015 - \$98,400) in tenant inducements and recognized \$178,255 (2015- \$163,141) of amortization of deferred tenant inducements as a reduction in rent expense. In addition, during the year ABC Ltd recognized net straight-line rent expense of \$286,744 (2015 – income of \$128,332).

# ABC Ltd OF ALBERTA

## Notes to Financial Statements

Year ended December 31, 2016

### 12. Commitments

	Premises base rent	Vehicles and equipment rent	Total
2017	4,508,076	31,944	<b>4,540,020</b>
2018	3,934,921	24,370	<b>3,959,291</b>
2019	3,685,256	20,296	<b>3,705,552</b>
2020	3,296,991	19,488	<b>3,316,479</b>
2021	2,567,277	17,576	<b>2,584,853</b>

ABC Ltd has issued, through Royal Bank of Canada (RBC), an irrevocable letter of credit to a landlord in the amount of \$275,000 in support of ABC Ltd's commitments under the terms of a lease agreement. The letter of credit can be drawn down by the landlord if ABC Ltd does not fulfill its commitments under the lease. The letter of credit is renewable annually for five years and is fully secured by a restricted investment (note 3).

### 13. Employee future benefits

Information about the ABC Ltd's defined benefit plan is as follows:

	2016	2015
Accrued benefit obligation	\$ (212,000)	\$ (205,000)
Fair value of plan assets	196,000	178,000
Accrued benefit liability	\$ (16,000)	\$ (27,000)

On October 15, 2013, the Trustee approved the termination of the defined benefit plan and the defined contribution plan effective December 31, 2013. Notices of plan termination were sent to Canada Revenue Agency, Alberta Finance and Enterprise and all active defined benefit and defined contribution plan members stating that contributions into the defined contribution plan would no longer be made after December 31, 2013.

During 2014, funds were disbursed out of the defined benefit plan and defined contribution plan for all active employees subject to statutory limitations. Following the disbursement of any remaining funds, which is expected to be substantially completed by December 31, 2017, both plans will be deregistered. ABC Ltd does not expect a significant plan deficiency or plan surplus following full disbursement of member funds.

# ABC Ltd OF ALBERTA

Notes to Financial Statements

Year ended December 31, 2016

---

## **14. Financial risks and concentration of credit risk**

### **(a) Credit risk**

Credit risk arises from the possibility that the entities to which ABC Ltd sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance. Substantially all of ABC Ltd's commercial sales are settled at the transaction date.

### **(b) Interest rate risk**

Interest rate risk relates to the floating interest rate on the demand operating loan. As at December 31, 2016, the demand operating loan was not drawn on and in management's opinion, ABC Ltd is not exposed to significant interest rate risk. The interest rate on the long-term debt is fixed for the term of the loan.

### **(c) Foreign currency risk**

Foreign currency risk relates to holding funds in a US bank account used to pay US suppliers. In management's opinion, ABC Ltd is not exposed to significant foreign currency risk.

## **15. Comparative information**

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.



# ABC Ltd OF ALBERTA

## Notes to Financial Statements

Year ended December 31, 2016

### 16. Operating expenses

Further details of operating expenses include the following:

	2016	2015
Human resource costs		
Salaries and wages	\$ 12,523,994	\$ 12,586,808
Employee benefits	1,330,663	1,320,833
Contracted labour	108,703	95,149
Training, recruitment and other costs	100,923	166,174
	<b>\$ 14,064,283</b>	<b>\$ 14,168,964</b>
Occupancy costs		
Rent and other occupancy costs	\$ 5,056,770	\$ 4,587,593
Repairs and maintenance	526,338	690,967
Utilities	302,529	339,798
Telephone and communications	144,130	144,877
Insurance	89,489	80,761
	<b>\$ 6,119,256</b>	<b>\$ 5,843,996</b>
Other operating costs		
Disposal fees	\$ 478,923	\$ 630,535
Vehicle leases and rentals	245,446	236,186
Audit and professional fees	196,796	216,981
Advertising and promotion	330,394	328,801
Fees and other dues	176,511	139,504
Interest and bank charges	178,216	173,825
Travel	105,261	95,105
Affiliation dues	72,480	72,350
Postage and delivery	26,474	28,858
Interest on capital lease	3,976	2,385
Foreign exchange (loss) gain	158	(682)
	<b>\$ 1,814,635</b>	<b>\$ 1,923,848</b>
Materials costs		
Supplies	\$ 603,698	\$ 413,902
Materials	27,280	23,010
	<b>\$ 630,978</b>	<b>\$ 436,912</b>