Financial Statements of

ABC Ltd OF ALBERTA
(Registered Society)

Year ended December 31, 2019

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Financial Statements

Year ended December 31, 2019

KPMG LLP
2200, 10175 – 101 Street
Edmonton, AB T5J 0H3
Telephone (780) 429-7300
Fax (780) 429-7379
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of ABC Ltd of Alberta (Registered Society)

Opinion

We have audited the financial statements of ABC Ltd of Alberta (Registered Society), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Registered Society as at December 31, 2019, 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 Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Registered Society 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 opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Registered Society'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 Registered Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Registered Society's financial reporting process.

Auditors' 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 auditors' 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 the 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 Registered Society'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 Registered Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Registered Society 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Edmonton, Canada

April 21, 2020

ABC Ltd OF ALBERTA (Registered Society)

Statement of Financial Position

December 31, 2019, with comparative information for 2018

		2019		2018
ASSETS				
Current				
Cash and cash equivalents	**$**	**1,828,340**	$	985,833
Investments (note 3)		**512,013**		500,000
Accounts receivable		**513,579**		309,903
Prepaid expenses and deposits		**709,339**		818,712
		3,563,271		2,614,448
Non-current investments (note 3)		**275,000**		275,000
Property and equipment (note 4)		**6,366,669**		6,261,708
	$	**10,204,940**	$	9,151,156
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accruals (note 6)	**$**	**1,662,463**	$	1,681,116
Deferred revenues		**678,628**		670,825
Scheduled cash repayments for long-term debt (note 7)		**472,301**		444,180
		2,813,392		2,796,121
Callable debt (note 7)		**350,000**		-
		3,163,392		2,796,121
Long-term debt (note 7)		**763,334**		1,235,634
Deferred capital contributions (note 8)		**142,497**		167,834
Straight-line rent and tenant inducements (note 9)		**5,495,579**		4,044,209
		9,564,802		8,243,798
Net assets		**640,138**		907,358
	$	**10,204,940**	$	9,151,156

Credit facility (note 5)
Commitments and contingencies (note 10)
Subsequent event (note 14)

See accompanying notes to financial statements.

On behalf of the Board:

_______________________________, Director _______________________________, Director

ABC Ltd OF ALBERTA (Registered Society)

Statement of Operations

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Operating revenues		
Commercial	$ 30,274,056	$ 26,737,544
Provincial contract fees	2,204,619	2,382,561
Donations, grants and contributions	272,570	124,487
Interest revenue	13,367	10,445
	32,764,612	29,255,037
Operating expenses (note 13)		
Human resources	18,957,729	17,562,393
Occupancy	9,222,993	8,507,149
Other operating	2,226,654	2,229,033
Materials	1,144,885	780,436
	31,552,261	29,079,011
Excess of revenues over expenses before the under-noted	1,212,351	176,026
Amortization of deferred capital contributions	25,337	25,336
Amortization of deferred tenant inducements	480,079	333,292
Amortization of property and equipment	(1,188,578)	(1,166,158)
Lease termination fee	(712,619)	-
Loss on disposal of property and equipment	(83,790)	-
Deficiency of revenues over expenses	$ (267,220)	$ (631,504)

See accompanying notes to financial statements.

ABC Ltd OF ALBERTA (Registered Society)

Statement of Changes in Net Assets

Year ended December 31, 2019, with comparative information for 2018

2019		Unrestricted (deficiency)		Invested in property and equipment		**Total**
Balance, beginning of year	$	(859,899)	$	1,767,257	**$**	**907,358**
Excess (deficiency) of revenues over expenses		499,732		(766,952)		**(267,220)**
Investment in property and equipment, net		312,110		(312,110)		-
Balance, end of year	$	(48,057)	$	688,195	**$**	**640,138**

2018		Unrestricted (deficiency)		Invested in property and equipment		Total
Balance, beginning of year	$	(617,471)	$	2,156,333	$	1,538,862
Excess (deficiency) of revenues over expenses		176,026		(807,530)		(631,504)
Investment in property and equipment, net		(418,454)		418,454		-
Balance, end of year	$	(859,899)	$	1,767,257	$	907,358

See accompanying notes to financial statements.

ABC Ltd OF ALBERTA (Registered Society)

Statement of Cash Flow

Year ended December 31, 2019, with comparative information for 2018

		2019		2018
Cash provided by (used in):				
Operating activities:				
Deficiency of revenues over expenses	$	**(267,220)**	$	(631,504)
Amortization of property and equipment		**1,188,578**		1,166,158
Straight-line rent (note 9)		**147,830**		277,500
Amortization of deferred capital contributions (note 8)		**(25,337)**		(25,336)
Amortization of deferred tenant inducements (note 9)		**(480,079)**		(333,292)
Gain on settlement of accounts payable and accruals (note 4)		**(416,113)**		-
Loss on write-down of property and equipment (note 4)		**416,113**		-
Loss on disposal of property and equipment		**83,790**		-
		647,562		453,526
Change in non-cash operating working capital				
Accounts receivable		**(203,676)**		749,573
Prepaid expenses and deposits		**109,373**		(66,649)
Accounts payable and accrued liabilities		**397,460**		(1,024,072)
Deferred revenues		**7,803**		176,996
		958,522		289,374
Financing activities:				
Proceeds from callable debt (note 7)		**350,000**		-
Repayment of long-term debt (note 7)		**(444,179)**		(151,192)
Tenant inducement received (note 9)		**1,783,619**		482,018
		1,689,440		330,826
Investing activities:				
Proceeds from sale of investments		**775,000**		568,068
Purchase of investments including reinvested investment income		**(787,013)**		(500,000)
Purchase of property and equipment		**(1,793,442)**		(749,280)
		(1,805,455)		(681,212)
Net increase (decrease) in cash and cash equivalents		**842,507**		(61,012)
Cash and cash equivalents, beginning of year		**985,833**		1,046,845
Cash and cash equivalents, end of year	$	**1,828,340**	$	985,833
Supplemental cash flow information:				
Cash interest paid	$	**112,730**	$	115,513
Cash interest received	$	**13,367**	$	5,555

See accompanying notes to financial statements.

1. Purpose of the organization

ABC Ltd Industries of Alberta (Registered Society) ("ABC Ltd") is a non-profit registered charity 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. 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 and cash equivalents

Cash and cash equivalents 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.

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, the relevant 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.

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.

Transaction 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.

3. Investments

		2019		2018
Cashable and redeemable ATB Financial guaranteed investment certificate with annual interest rate of 0.5% with maturity in 2020	$	507,750	$	500,000
Cashable and redeemable ATB Financial guaranteed investment certificate with annual interest rate of 0.5% with maturity in 2020		279,263		275,000
		787,013		775,000
Less current portion		512,013		500,000
	$	**275,000**	$	275,000

A portion of the ATB Financial guaranteed investment certificate (GIC) with a carrying amount of $279,263 is restricted as cash security for an irrevocable letter of credit for $275,000 issued by ABC Ltd through ATB Financial (note 10). The GIC is renewable annually for two (2018 – three) years.

4. Property and equipment

2019		Cost		Accumulated Amortization		**Net Book Value**
Computers and electronic equipment	$	**823,889**	$	**689,386**	**$**	**134,503**
Furniture and equipment		**2,462,063**		**941,241**		**1,520,822**
Vehicles		**279,373**		**260,707**		**18,666**
Leasehold improvements		**7,774,622**		**3,081,944**		**4,692,678**
Total property and equipment	$	**11,339,947**	$	**4,973,278**	**$**	**6,366,669**

2018		Cost		Accumulated Amortization		Net Book Value
Computers and electronic equipment	$	742,626	$	541,419	$	201,207
Furniture and equipment		2,155,909		818,648		1,337,261
Vehicles		258,966		250,744		8,222
Leasehold improvements		7,570,355		2,855,337		4,715,018
Total property and equipment	$	10,727,856	$	4,466,148	$	6,261,708

During the year, ABC Ltd wrote off fully amortized assets resulting in a reduction to cost and accumulated amortization of $765,238 (2018 - $550,074).

During the year, ABC Ltd recognized a gain of $416,113 related to the resolution of a dispute with a supplier with respect to certain leasehold improvements. The gain was netted against a corresponding loss on the write-down of the related leasehold improvements of $416,113.

5. Credit facility

ABC Ltd has a demand operating loan available to a maximum of $1,000,000 (2018 – $1,000,000) of which $nil was outstanding at December 31, 2019 (2018 – $nil). The facility bears interest at the bank's prime rate plus 2.0% (2018 – prime rate plus 2.0%). The facility is secured by an investment portfolio with a minimum market value of $500,000 (2018 - $500,000) supported by a security agreement constituting a first ranking security interest in the investment portfolio. The facility is subject to certain financial covenants. At December 31, 2019, ABC Ltd was in compliance with the financial covenants.

6. Accounts payable and accruals

Included in accounts payable and accrued liabilities are government remittances payable of $94,962 (2018 - $83,347) which includes payroll related taxes.

7. Callable and long-term debt

		2019		2018
Callable loan payable to ATB bearing interest at 5.95%, with scheduled repayments in monthly interest-only payments to June 30, 2020, with blended monthly payments starting July 31, 2020, until June 30, 2024	$	**350,000**	$	-
Loan payable to Alberta Social Enterprise Venture Fund Inc. (ASEV) bearing interest at 5%, repayable in blended monthly payments of $9,213, maturing on March 15, 2021		**133,695**		234,811
Loan payable to ASEV bearing interest at 6.5%, repayable in blended monthly payments of $35,573, maturing on October 15, 2022		**1,101,940**		1,445,003
		1,585,635		1,679,814
Less:				
Scheduled cash repayments for long-term debt		**(472,301)**		(444,180)
Callable debt		**(350,000)**		-
	$	**763,334**	$	1,235,634

Loans payable to ASEV are secured by a general security agreement.

Management does not believe that the demand features of the callable debt will be exercised in the current year. Assuming payment of the callable debt is not demanded, regular principal payments required on all callable and long-term debt for the next five years are due as follows:

2020	**$511,644**
2021	**500,238**
2022	**432,680**
2023	**92,646**
2024	**48,427**

8. Deferred capital contributions

Changes in deferred capital contributions are as follows:

	2019	2018
Balance, beginning of year	**$ 167,834**	$ 193,170
Contributions recognized as revenue	**(25,337)**	(25,336)
Balance, end of year	$ 142,497	$ 167,834

9. Straight-line rent and tenant inducements

	2019	2018
Tenant inducements	**$ 3,950,343**	$ 2,646,803
Straight-line rent	**1,545,236**	1,397,406
	$ 5,495,579	$ 4,044,209

During the year, ABC Ltd received $1,783,619 (2018 - $482,018) in tenant inducements and recognized $480,079 (2018 – $333,292) of amortization of deferred tenant inducements. In addition, during the year ABC Ltd recognized net straight-line rent expense of $147,830 (2018 – $277,500).

10. Commitments and contingencies

	Premises base rent	Vehicles and equipment rent	Total
2020	$5,818,300	$106,800	**$5,925,100**
2021	5,440,000	105,300	**5,545,300**
2022	4,698,900	79,900	**4,778,800**
2023	4,634,700	56,500	**4,691,200**
2024	4,405,700	59,900	**4,465,600**

ABC Ltd has issued, through ATB Financial, 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 two years and is fully secured by a restricted investment (note 3).

In the prior year, ABC Ltd was named in a lawsuit by a former landlord/owner claiming certain costs, penalties and damages pertaining to the terms of a lease that terminated during 2017. ABC Ltd has filed a Statement of Defense denying all allegations. The final outcome of the lawsuit is not presently determinable.

11. Employee future benefits

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.

In 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, 2020, both plans will be deregistered. ABC Ltd does not expect a significant plan deficiency or plan surplus following full disbursement of member funds.

At December 31, 2019, ABC Ltd is holding $770,000 (2018 - $749,000) in trust on behalf of the members of the plans.

12. 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, 2019, the demand operating loan was not drawn on. In management's opinion, ABC Ltd is not exposed to significant interest rate risk. The interest rate on the callable and long-term debt is fixed for the term of the loans.

(c) Foreign currency risk

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

13. Operating expenses

Further details of operating expenses include the following:

		2019		2018
Human resource costs				
Salaries and wages	**$**	**16,805,178**	$	15,582,855
Employee benefits		**1,851,823**		1,702,581
Contracted labour		**156,838**		126,185
Training, recruitment and other costs		**143,890**		150,772
	$	**18,957,729**	$	17,562,393
Occupancy costs				
Rent and other occupancy costs	**$**	**7,500,417**	$	7,062,155
Repairs and maintenance		**767,056**		744,819
Utilities		**457,068**		422,315
Security guard services		**198,894**		-
Telephone and communications		**168,721**		159,676
Insurance		**130,837**		118,184
	$	**9,222,993**	$	8,507,149
Other operating costs				
Advertising and promotion	**$**	**419,069**	$	489,938
Vehicle leases, rent, fuel and other		**403,088**		353,208
Audit and professional fees		**392,821**		342,986
Disposal fees		**274,150**		320,141
Bank charges and interest		**263,637**		268,040
Fees and other dues		**183,560**		160,471
Interest on long-term debt		**93,249**		111,717
Travel		**89,748**		87,379
Affiliation dues		**81,022**		79,956
Postage and delivery		**15,013**		15,197
Interest on callable debt		**11,297**		-
	$	**2,226,654**	$	2,229,033
Materials costs				
Supplies	**$**	**1,094,652**	$	762,004
Materials		**50,233**		18,432
	$	**1,144,885**	$	780,436

14. Subsequent event

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

At the time of approval of these financial statements, ABC Ltd has experienced the following indicators of financial implications and undertaken the following activities in relation to the COVID-19 pandemic based on recommendations of public health authorities and accepted best practice:

- Temporarily closed all retail stores and donation collection centres from March 21, 2020,
- Temporarily closed substantially all mission service delivery from March 25, 2020,
- Temporarily laid off substantially all hourly and salaried employees related to closures,
- Mandated working from home requirements for those able to do so.

At this time these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.

15. Comparative information

Certain comparative information has been reclassified to conform with current year's presentation.