AARC Society
(Alberta Adolescent Recovery Centre)
(a not-for-profit organization)

Financial Statements

March 31, 2014

Collins Barrow

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Independent Auditors' Report

To the Board of Directors
AARC Society (Alberta Adolescent Recovery Centre)
(a not-for-profit organization)

We have audited the accompanying financial statements of AARC Society (Alberta Adolescent Recovery Centre) (a not-for-profit organization), which comprise the statement of financial position as at March 31, 2014, and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 the auditors' 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, the auditor considers 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 qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Society derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Society and we were not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, assets and net assets.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of AARC Society (Alberta Adolescent Recovery Centre) (a not-for-profit organization) as at March 31, 2014, 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.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Canada
June 18, 2014

AARC Society

(a not-for-profit organization)

Statements of Financial Position

March 31, 2014

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 412,161	$ 853,906
Restricted cash (note 3)	210,000	241,000
Accounts receivable	83,049	85,137
Prepaid expenses	165,329	151,124
	870,539	1,331,167
Marketable securities (note 4)	2,910,698	2,419,982
Investments (note 5)	277,767	247,650
Capital assets (note 6)	5,376,765	5,619,672
Copyright	100,000	100,000
Clinical development fund (note 4)	2,885,951	2,835,951
	$ 12,421,720	$ 12,554,422
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 166,936	$ 158,547
Trust liabilities (note 3)	210,000	241,000
Deferred revenue (note 7)	372,774	460,524
	749,710	860,071
Deferred contributions related to capital assets (note 8)	4,606,701	4,829,856
Deferred contributions - clinical development fund (note 9)	2,885,951	2,835,951
	8,242,362	8,525,878
Net Assets		
Invested in capital assets and copyright	870,943	890,695
Internally restricted - Building for Tomorrow	3,051,449	2,890,199
Restricted for endowment purposes	256,966	247,650
	4,179,358	4,028,544
	$ 12,421,720	$ 12,554,422

Approved by the Board,

_______________, Director

_______________, Director

AARC Society

(a not-for-profit organization)

Statement of Operations and Changes in Net Assets
Year Ended March 31, 2014

	2014	2013
Revenue		
Fees (note 10)	$ 565,176	$ 911,365
Fundraising	1,528,049	1,716,016
Fundraising in-kind	85,322	107,143
Donations	509,640	644,063
Donations in-kind	45,750	23,088
Interest and other	32,982	46,402
Amortization of deferred contributions related to capital assets (note 8)	227,555	245,014
Community intervention	-	25,000
	2,994,474	3,718,091
Expenses		
Clinical	1,902,320	2,256,280
Community relations and fund development	531,059	621,901
Administration	319,823	315,005
Amortization	259,594	285,945
Building	207,195	258,904
Legal and consulting (note 11)	63,615	146,526
In-kind	131,072	130,231
	3,414,678	4,014,792
Deficiency of revenue over expenses before the following	(420,204)	(296,701)
Other income		
Gain on disposal of marketable securities	114,231	13,900
Change in unrealized gain on marketable securities and reinvested investment income (note 12)	456,787	400,027
	571,018	413,927
Excess of revenue over expenses	150,814	117,226
Net assets, beginning of year (note 13)	4,028,544	3,911,318
Net assets, end of year (note 13)	$ 4,179,358	$ 4,028,544

AARC Society

(a not-for-profit organization)

Statement of Cash Flows

Year Ended March 31, 2014

	2014	2013
Operating activities		
Fee receipts	$ 561,372	$ 918,013
Donation receipts	509,641	784,871
Fundraising receipts	1,490,294	1,570,458
Operating payments	(3,023,932)	(3,632,508)
Interest and other receipts	22,023	41,946
	(440,602)	(317,220)
Investing activities		
Acquisition of capital assets	(12,287)	(923)
Proceeds on sale of marketable securities	-	500,000
Endowment fund receipts	11,144	10,661
	(1,143)	509,738
Cash inflow (outflow)	(441,745)	192,518
Cash and cash equivalents, beginning of year	853,906	661,388
Cash and cash equivalents, end of year	$ 412,161	$ 853,906
Cash and cash equivalents are comprised of:		
Cash	$ 112,161	$ 853,906
Cash equivalents	300,000	-
	$ 412,161	$ 853,906

Non-cash transactions (note 15)

1. Nature of operations

AARC Society (Alberta Adolescent Recovery Centre) is an organization operating a treatment centre for adolescents suffering from the disease of alcoholism and/or drug addiction and their families. The centre is based on a cost effective, research-based, clinically validated treatment model. The Society also provides current, relevant information and perspectives on adolescent chemical dependency to as many individuals and institutions as possible throughout the community.

The Society is a registered charitable organization for purposes of the *Income Tax Act* under Section 149(1)(f) and is incorporated under the *Societies Act* of Alberta. Accordingly, no provision for income taxes has been made in these financial statements.

2. Accounting policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following accounting policies:

(a) Net assets

Within operations there are the following funds:

The Building for Tomorrow Fund was created to assist the Society to achieve long-term objectives. Resources within the Building for Tomorrow Fund may be used for, but are not limited to, the following purposes: purchase of major capital assets, renovations and repairs to the building, and operational funding in critical situations where no other source of funding is available.

The Endowment Fund was created in 2000 and continues to grow through capital contributions to The Calgary Foundation. The capital contributions will be held in perpetuity for the life of the Society. Income earned on the capital contributions is disbursed to the Society on a regular basis to fund operations as further described in note 5.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and cashable fixed interest guaranteed investment certificates. The guaranteed investment certificate bears interest at 1% per annum (2013 - NIL) and matures April 2, 2014.

(c) Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of their contribution. All capital assets, including donated assets and their related contribution, are amortized using the declining balance method at the following annual rates:

Building	4%
Furniture and fixtures	20%
Office equipment	20 - 30%
Outdoor equipment	20%
Computer equipment	30%
Passenger vehicles	30%

Donations for the acquisition of capital assets that will not be amortized and contributions of capital assets that will not be amortized are recognized as direct increases in net assets invested in capital assets.

Capital assets are evaluated for impairment when events or circumstances indicate its carrying value may not be recoverable. Any impairment is measured by comparing the carrying value of the assets to the fair value, based on the present value of future cash flows expected to be generated from the assets.

(d) Copyright

Copyright with a perpetual life is recorded at cost. When there has been a decline in value of the copyright that is other than a temporary decline, the copyright will be written down to recognize its estimated value.

(e) Revenue recognition

The Society follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income, including gains and losses on marketable securities, investments held for endowment purposes, and the expansion fund is recognized as revenue when received or receivable.

The Society sets fees by assessing each client's financial situation and ability to pay. Fees are recognized as revenue in the year in which the related expenses are incurred.

(f) Donated materials and services

The Society records donated materials and services only if the fair value can be reasonably estimated.

The Society does not recognize the hours of volunteer services received in the year from individuals.

(g) Financial instruments

The Society initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions that are measured at the exchange amount.

The Society subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in excess of revenue over expenses.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable. The Society's financial assets measured at fair value include marketable securities and investments.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Financial assets measured at cost or amortized cost are tested for impairment, at the end of each year, to determine whether there are indicators that the asset may be impaired. The amount of the write-down, if any, is recognized in excess of revenue over expenses. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account. The reversal may be recorded provided it is no greater than the amount that had been previously reported as a reduction in the asset and it does not exceed original cost. The amount of the reversal is recognized in excess of revenue over expenses.

(h) Measurement uncertainty

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

The valuation of capital assets is based on management's best estimates of the future recoverability of these assets and the determination of costs subject to classification as capital assets. The amounts recorded for amortization of the capital assets are based on management's best estimates of the remaining useful lives and period of future benefit of the related assets.

The valuation of donated goods and services is based on management's best estimate of the fair value of the goods and services at the time of donation.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

3. Restricted cash

Restricted cash represents amounts received that are disbursed to certain individuals on a monthly basis based on specific instructions from the contributor. These funds are not available for general use by the Society and are held in a cashable guaranteed investment certificate bearing interest at 1% per annum and maturing March 19, 2015.

4. Marketable securities and clinical development fund

The Society's securities consist of fixed income and equity pooled funds with a cost of $5,040,665 (2013 - $4,809,844). The fair market value of the securities has been allocated first to the Clinical Development Fund in respect of contributions to that fund, with the remainder allocated to marketable securities, as follows:

	2014	2013
Total fair market value of securities	$ 5,796,649	$ 5,255,933
Less: Clinical Development Fund	2,885,951	2,835,951
Marketable securities	$ 2,910,698	$ 2,419,982

The Clinical Development Fund was originally created to assist the Society with the expansion of the facility. Now that the building is complete, the amounts in this fund are restricted for use in operations including research, community outreach and education. The cash and investments within the fund are measured at fair market value. Income earned on these investments and changes in fair market value are unrestricted.

5. Investments

	2014		2013	
	Cost	Market Value	Cost	Market Value
Investments held by The Calgary Foundation for endowment purposes	$ 170,276	$ 277,767	$ 170,460	$ 247,650

Assets held by The Calgary Foundation are invested in various municipal, provincial and federal government securities, along with other corporate equity, bonds and debentures. The Calgary Foundation is solely responsible for the management of these assets and the discretionary distribution of accumulated investment income and gains on an annual basis.

During the year, $11,144 (2013 - $10,661) was distributed to the Society by The Calgary Foundation.

6. Capital assets

	Cost	Accumulated Amortization	Net Book Value 2014	Net Book Value 2013
Land	$ 484,639	$ -	$ 484,639	$ 484,639
Building	6,830,796	2,162,584	4,668,212	4,850,179
Furniture and fixtures	545,069	448,923	96,146	115,232
Office equipment	192,153	173,551	18,602	24,620
Outdoor equipment	275,868	214,548	61,320	76,650
Computer equipment	256,026	234,831	21,195	30,279
Passenger vehicles	105,383	78,732	26,651	38,073
	$ 8,689,934	$ 3,313,169	$ 5,376,765	$ 5,619,672

7. Deferred revenue

Deferred revenue represents the unspent portion of restricted funding for operating programs as well as fundraising events and other revenues received for the next fiscal year.

	2014	2013
Gala event	$ 249,950	$ 253,200
Golf event	24,000	8,500
Restricted funding for operating programs	33,441	33,441
Community intervention	65,383	165,383
	$ 372,774	$ 460,524

8. Deferred contributions related to capital assets

Deferred contributions related to capital assets represent the unamortized portion of restricted contributions and contributed capital assets received from private and government donors.

The changes in the deferred contributions balance for the year are as follows:

	2014	2013
Balance, beginning of year	$ 4,829,856	$ 5,064,270
Donated capital assets	4,400	10,600
Amount amortized to revenue	(227,555)	(245,014)
Balance, end of year	$ 4,606,701	$ 4,829,856

This balance consists of:

	2014	2013
Capital assets	$ 5,376,765	$ 5,619,672
Copyright	100,000	100,000
Net book value of previous expenditures on capital assets and copyright	5,476,765	5,719,672
Contributions received and not yet utilized	879	879
Society's funds, other than contributions, invested in capital assets and copyright	(870,943)	(890,695)
Unamortized balance of contributions expended on capital assets and copyright	$ 4,606,701	$ 4,829,856

9. Deferred contributions - clinical development fund

The clinical development fund consists of marketable securities held with financial institutions (note 4).

The changes in deferred contributions - clinical development fund for the year are as follows:

	2014	2013
Balance, beginning of year	$ 2,835,951	$ 2,785,951
Contributions	50,000	50,000
Balance, end of year	$ 2,885,951	$ 2,835,951

10. Fees

	2014	2013
Clients	$ 475,912	$ 580,008
Alberta Health Services ("AHS")	80,964	323,857
Assessment fees	8,300	7,500
	$ 565,176	$ 911,365

The Society received notification from AHS on April 4, 2013 that funding by the provincial government for resident Alberta minors receiving treatment at AARC was being terminated as a result of budget cuts. As per the terms of the contract, AARC received one final quarterly payment from AHS for the period April 1 to June 30, 2013.

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Notes to Financial Statements

March 31, 2014

11. Legal and consulting

The legal and consulting expense represents the costs associated with multiple legal proceedings taken by the Society as Plaintiff for defamation with CBC Television ("CBC") and four interviewees as defendants, which defamatory acts arose out of the CBC production called "Powerless" which first aired on CBC on February 13, 2009 and continues to be aired on the CBC website. The defamatory statements are causing significant reputational and financial injury to the Society. The Society's Board of Directors believes that the Society has a good case and has engaged the services of a defamation lawyer. To date, one interviewee has retracted his statements in writing.

Two of the interviewees have filed counterclaims against the Society for total claim in the amount of $550,000. The Society's Board of Directors has received legal advice that the counterclaims are likely statute barred and are, in any event, without merit. Further, the costs of defending the counterclaims have been presented to the Society's insurance company.

No amounts have been recorded in the financial statements in respect of these actions, other than legal and consulting costs incurred to date.

12. Change in unrealized gain on marketable securities and reinvested investment income

	2014	2013
Unrealized gain on marketable securities	$ 225,966	$ 288,603
Reinvested investment income	253,482	133,397
Broker fees	(22,661)	(21,973)
	$ 456,787	$ 400,027

13. Changes in net assets

	Invested in Capital Assets and Copyright	Internally Restricted Building for Tomorrow	Restricted for Endowment Purposes	Unrestricted	Total
Balance, beginning of year	$ 890,695	$ 2,890,199	$ 247,650	$ -	$ 4,028,544
Excess (deficiency) of revenue over expenses	(32,039)	-	9,316	173,537	150,814
Investment in capital assets and copyright	12,287	-	-	(12,287)	-
Transfer to Building for Tomorrow Fund	-	161,250	-	(161,250)	-
Balance, end of year	$ 870,943	$ 3,051,449	$ 256,966	$ -	$ 4,179,358

Of the amounts restricted for endowment purposes, $5,000 (2013 - $5,000) is subject to external restrictions and the remaining balance is internally restricted.

14. Financial instruments

The Society is exposed to the following significant financial risks:

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The financial instruments that potentially subject the Society to a significant concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Society mitigates its exposure to credit loss by placing its cash and cash equivalents with major financial institutions.

Accounts receivable has no significant concentration of credit risk with any one party or industry. As such, credit risk of accounts receivable is considered low.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Society is exposed to interest rate price risk to the extent that a portion of the cash equivalents is at a fixed interest rate.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Society's investments in public company securities expose the Society to price risks as equity investments are subject to price changes in an open market. The Society does not use derivative financial instruments for the effects of this risk.

(d) Liquidity risk

Liquidity risk is the risk that the Society will encounter difficulty in meeting obligations associated with financial liabilities. Management closely monitors cash flow requirements to ensure that it has sufficient cash or credit facilities available to meet operational and financial obligations.

15. Supplementary expense information

The total compensation to Society employees whose principal duties were fundraising amounted to $198,428 (2013 - $204,403).

16. Non-cash transactions

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

	2014	2013
Donations	$ 45,750	$ 23,088
Fundraising	85,322	107,143
	$ 131,072	$ 130,231
Operating payments	$ 131,072	$ 130,231
Office equipment	$ 4,400	$ 10,600