

FINANCIAL STATEMENTS
For
ABILITIES CENTRE DURHAM
For year ended
DECEMBER 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the directors of

ABILITIES CENTRE DURHAM

We have audited the accompanying financial statements of Abilities Centre Durham, which comprise the statement of financial position as at December 31, 2017 and the statements of operations, 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.

Auditor's 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 auditor's 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.

.../2

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

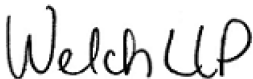
In common with many not-for-profit organizations, the organization derives revenue from fundraising activities the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization. Therefore, we were unable to determine whether any adjustments might be necessary to fundraising revenue, excess of revenue over expenses and cash flows from operations for the years ended December 31, 2017 and 2016, current assets, deferred revenue and deferred contributions related to capital assets as at December 31, 2017 and 2016 and net assets as at January 1 and December 31 for both the 2016 and 2017 years. The audit opinion on the financial statements for the year ended December 31, 2016 was also modified because of the possible effects of this limitation in scope.

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 Abilities Centre Durham as at December 31, 2017 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.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which describes the uncertainty of Abilities Centre Durham to continue as a going concern. Our opinion is not qualified in respect of this matter.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 6, 2018.

ABILITIES CENTRE DURHAM
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (note 4)	\$ 163,208	\$ 196,252
Accounts receivable	180,495	89,301
Prepaid expenses	<u>16,667</u>	<u>25,783</u>
	360,370	311,336
CAPITAL ASSETS (note 5)	<u>28,500,642</u>	<u>29,162,993</u>
	<u>\$ 28,861,012</u>	<u>\$ 29,474,329</u>
<u>LIABILITIES AND NET LIABILITIES</u>		
CURRENT LIABILITIES		
Promissory note (note 6)	\$ 1,000,000	\$ 1,000,000
Accounts payable and accrued liabilities	199,968	166,448
Government remittances payable	-	747
Current portion of capital lease obligation (note 8)	85,514	49,677
Current portion of term loan (note 6)	5,994,313	6,295,462
Deferred revenue	329,771	114,293
Deferred contributions (note 7)	<u>120,000</u>	<u>94,422</u>
	7,729,566	7,721,049
CAPITAL LEASE OBLIGATION (note 8)	171,787	114,678
DEFERRED CAPITAL CONTRIBUTIONS (note 9)	<u>23,467,816</u>	<u>24,230,642</u>
	<u>31,369,169</u>	<u>32,066,369</u>
NET ASSETS (LIABILITIES)		
Unrestricted deficiency	(2,548,157)	(2,622,040)
Capital reserve fund - externally restricted (note 12)	<u>40,000</u>	<u>30,000</u>
	<u>(2,508,157)</u>	<u>(2,592,040)</u>
	<u>\$ 28,861,012</u>	<u>\$ 29,474,329</u>

Approved by the Board:

..... Director

..... Director

(See accompanying notes)

ABILITIES CENTRE DURHAM
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Externally restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Net assets (liabilities), beginning of year	\$ (2,622,040)	\$ 30,000	\$ (2,592,040)	\$ (2,192,767)
Net revenue over expenses (expenses over revenue)	83,883	-	83,883	(399,273)
Interfund transfer (note 12)	<u>(10,000)</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
Net assets (liabilities), end of year	<u>\$ (2,548,157)</u>	<u>\$ 40,000</u>	<u>\$ (2,508,157)</u>	<u>\$ (2,592,040)</u>

(See accompanying notes)

ABILITIES CENTRE DURHAM
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
Revenue		
Membership fees	\$ 952,045	\$ 924,477
Fundraising	654,898	815,405
Amortization of capital contributions (note 9)	840,638	755,701
Grants (note 7)	1,444,947	631,841
Program fees	590,558	425,245
Rentals	407,563	350,419
Interest and other income	<u>80,989</u>	<u>72,081</u>
	<u>4,971,638</u>	<u>3,975,169</u>
Expenses		
Staffing costs	2,535,232	2,256,646
Amortization	973,261	963,167
Occupancy costs	463,740	523,815
Contracted services	244,206	127,974
Interest on term loan	178,852	115,462
Office	126,322	142,604
Program supplies	110,226	80,647
Fundraising-related expenses	65,630	22,250
Bank charges	63,380	40,266
Advertising and promotion	44,911	35,170
Travel	41,827	18,468
Professional fees	<u>40,168</u>	<u>47,973</u>
	<u>4,887,755</u>	<u>4,374,442</u>
Net revenue over expenses (expenses over revenue)	<u>\$ 83,883</u>	<u>\$ (399,273)</u>

(See accompanying notes)

ABILITIES CENTRE DURHAM
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net revenue over expenses (expenses over revenue)	\$ 83,883	\$ (399,273)
Adjustments for:		
Amortization of capital contributions	(840,638)	(755,701)
Amortization of capital assets	<u>973,261</u>	<u>963,167</u>
	216,506	(191,807)
Changes in non-cash working capital components:		
Accounts receivable	(91,194)	18,164
Prepaid expenses	9,116	(10,230)
Accounts payable and accrued liabilities	33,520	(5,240)
Government remittances payable	(747)	(11,141)
Deferred revenue	215,478	(66,301)
Deferred contributions	<u>25,578</u>	<u>30,394</u>
	<u>408,257</u>	<u>(236,161)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of capital assets	<u>(162,378)</u>	<u>(46,563)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Term loan repayments	(301,149)	(204,538)
Contributions received for capital expenditures	77,812	57,600
Financing loan repayments	-	(3,727)
Capital lease payments	<u>(55,586)</u>	<u>(3,863)</u>
	<u>(278,923)</u>	<u>(154,528)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(33,044)	(437,252)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>196,252</u>	<u>633,504</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 163,208</u>	<u>\$ 196,252</u>
<hr/>		
Cash and cash equivalents is represented by:		
General	\$ 123,208	\$ 166,252
Capital reserve fund - externally restricted (note 12)	<u>40,000</u>	<u>30,000</u>
	<u>\$ 163,208</u>	<u>\$ 196,252</u>

(See accompanying notes)

ABILITIES CENTRE DURHAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

1. NATURE OF OPERATIONS

Abilities Centre Durham (the "Organization") was incorporated without share capital under the Ontario Corporations Act on March 7, 2003. The Organization is a national centre of excellence, operating in a state-of-the-art barrier free facility, with a mission to enhance the quality of life for persons of all ages and abilities through an inclusive environment.

The Organization is registered as a charitable organization and is exempt from income tax under section 149(1)(f) of the Income Tax Act.

2. GOING CONCERN

These financial statements have been prepared on the assumption that the Organization is a going concern, meaning it will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. There is doubt as to the appropriateness of this assumption given the Organization's deficiency in working capital. The Organization's ability to continue as a going concern is dependent on its ability to renegotiate favourable repayment terms on the loan, qualify for government funding for some of its program offerings, attain profitable operations generating sufficient funds to meet current and future obligations, receive contribution from the revitalization of the foundation and by executing their strategic plan which includes creating new sources of funding.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accounting policies of the Organization are in accordance with Canadian accounting standards for not-for-profit organizations.

Revenue recognition

The Organization follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are initially deferred and recorded as deferred contributions on the statement of financial position and are recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for capital assets that will be amortized are deferred and amortized to income on the same basis as the capital assets to which they relate. Externally restricted contributions for the acquisition of capital assets that have not been expended are recorded as part of deferred capital contributions on the statement of financial position.

Unrestricted donations are recognized as revenue when received. Fundraising event revenue is recognized in the year in which the fundraising event occurs. Pledges are not recorded until the donations are received.

Membership revenue is recognized in the financial statements on a straight-line basis over the term of the membership with the unearned balance recorded as deferred revenue.

Rental and similar revenues are recognized on the date of the performance or event if the amounts to be received can be reasonably estimated, and ultimate collection is reasonably assured.

Cash and cash equivalents

Cash and cash equivalents includes cash held on hand and on deposit with financial institutions and a guaranteed investment certificate with original maturity of less than three months at date of acquisition.

ABILITIES CENTRE DURHAM
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES - Cont'd.

Capital assets

Capital assets are stated at acquisition cost. Amortization is provided using the straight-line method over the following terms:

Building	- remaining term of the ground lease
Parking lot	- 5 years
Computer equipment and software	- 3 years
Sports and music equipment	- 3 years
Furniture, fixtures and equipment	- 3 to 5 years

Capital leases

Equipment leased by the Organization under agreements which transfer substantially all of the benefits and risks of ownership to the Organization or include a bargain purchase option are accounted for as capital leases. Accordingly, at the inception of the leases, the equipment and related lease obligations are recorded at an amount equal to the present value of future lease payments discounted at the lesser of the interest rate inherent in the lease contracts and the Organization's incremental cost of borrowing. Amortization is provided on the same basis as with other similar assets owned by the Organization.

Financial instruments

The Organization initially measures its financial assets and financial liabilities at fair value. The Organization subsequently measures all its financial assets and financial liabilities at amortized cost.

Contributed materials and services

Contributed materials and services which are used in the normal course of the Organization's operations and would otherwise have been purchased are recorded at their fair value at the date of contribution if fair value can be reasonably estimated.

Volunteers contribute various hours over the year to assist the Organization in carrying out its service delivery activities. These services are not recognized in the financial statements as their fair value is not readily determinable.

Use of estimates

The preparation of 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 revenues and expenses during the reporting period. Significant estimates include determining the useful life of capital assets and their related deferred contributions, the collectibility of amounts receivable, the determination of accrued liabilities and the adequacy of the capital reserve fund. Actual results could differ from those estimates, the impact of which would be recorded in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

ABILITIES CENTRE DURHAM
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	<u>2017</u>	<u>2016</u>
Cash	\$ 152,817	\$ 185,991
Guaranteed investment certificate	<u>10,391</u>	<u>10,261</u>
	<u>\$ 163,208</u>	<u>\$ 196,252</u>

The guaranteed investment certificate matures January 4, 2018 with an interest rate of 1.36% (2016 - 0.85%).

5. CAPITAL ASSETS

Capital assets consist of the following:

	2017		2016	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Building	\$ 32,934,638	\$ 4,762,098	\$ 32,934,638	\$ 3,896,874
Parking lot	42,122	5,616	-	-
Computer equipment and software	40,387	26,442	152,910	145,125
Sports and music equipment	190,028	32,461	715,992	705,812
Furniture, fixtures and equipment	<u>486,647</u>	<u>366,563</u>	<u>400,437</u>	<u>293,173</u>
	33,693,822	<u>\$ 5,193,180</u>	34,203,977	<u>\$ 5,040,984</u>
Accumulated amortization	<u>5,193,180</u>		<u>5,040,984</u>	
	<u>\$ 28,500,642</u>		<u>\$ 29,162,993</u>	

Building includes leasehold improvements obtained through a capital lease with a cost of \$168,218 (2016 - \$168,218) and accumulated amortization of \$7,421 (2016 - \$2,474).

Sports and music equipment includes sports equipment obtained through capital lease with a cost of \$142,857 (2016 - \$nil) and accumulated amortization of \$7,021 (2016 - \$nil)

Furniture, fixtures and equipment includes cleaning equipment obtained through capital lease with a cost of \$5,675 (2016 - \$nil) and accumulated amortization of \$1,576 (2016 - \$nil)

The building is on land leased from the Corporation of the Town of Whitby expiring in 2030 with the Organization having the option of extending the lease to 2050.

6. CREDIT FACILITIES

The Organization arranged a non-revolving term loan of \$6,500,000 to bridge the receipt of specified private sector contribution pledges as well as the receipt of pledged funds from the Government of Canada, the Province of Ontario and the Town of Whitby for purposes of the building's construction. A forbearance agreement was entered into May 20, 2015 commencing March 1, 2015 and ending on April 30, 2016 with credit amending agreements coming into effect May 1, 2016 and May 1, 2017. Under the latest amending agreement, all amounts outstanding are due April 30, 2018.

Monthly payments of \$40,000 commenced May 1, 2016 applied first to accrued interest and then to principal owing on the non-revolving term loan. The interest rate on the non-revolving term loan and line of credit were lowered to the Bank's prime lending rate. At December 31, 2017, \$5,994,313 (2016 - \$6,295,462) was owing.

ABILITIES CENTRE DURHAM
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

6. CREDIT FACILITIES - Cont'd.

The Organization has an operating line of credit available in the amount of \$250,000 (2016 - \$350,000), bearing interest at the Bank's prime lending rate plus 1%. At December 31, 2017, \$nil of this line of credit was utilized (2016 - \$nil).

The Bank has a general security agreement over all present and future personal property.

The Organization also has a promissory note payable in the amount of \$1,000,000 that bears interest at the prime rate plus 2%. Interest payments have been waived by the promissory note holder annually since inception with no guarantee regarding the treatment of future interest obligations. The balance of this promissory note is due December 30, 2018.

7. DEFERRED CONTRIBUTIONS

Deferred contributions represent deposits and restricted funding received under the terms of various agreements, the funds are to be used to develop and deliver programs. The revenue is deferred until the costs to deliver the programs have been incurred.

	<u>2017</u>	<u>2016</u>
Opening balance	\$ 94,422	\$ 64,028
Contributions received	1,470,525	662,235
Revenue recognized	<u>(1,444,947)</u>	<u>(631,841)</u>
Ending balance	<u>\$ 120,000</u>	<u>\$ 94,422</u>

8. CAPITAL LEASE OBLIGATIONS

The Centre has multiple capital leases with implicit interest rates between 2.47% and 12.7% that expire between November 30, 2019 and November 1, 2022. The future minimum lease payments under the capital leases are as follows:

2018	\$ 100,295
2019	94,651
2020	30,763
2021	30,401
2022	<u>25,334</u>
Total minimum lease payments	281,444
Amount representing interest	<u>(24,143)</u>
Obligation under capital lease	257,301
Less: current portion	<u>(85,514)</u>
	<u>\$ 171,787</u>

ABILITIES CENTRE DURHAM
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

9. DEFERRED CAPITAL CONTRIBUTIONS

During the year, the Organization received capital contributions of \$77,812 (2016 - \$57,600). The funds are to be used for the construction of the building and the purchase of sports equipment.

	2017		2016	
	Contribution	Accumulated amortization	Contribution	Accumulated amortization
Government - Building	\$ 21,000,000	\$ 3,039,474	\$ 21,000,000	\$ 2,486,842
Government - Equipment	77,813	14,607	150,000	150,000
Private - Building	6,238,270	839,685	6,311,470	676,218
Private - Equipment	<u>180,944</u>	<u>135,445</u>	<u>223,103</u>	<u>140,871</u>
	27,497,027	<u>\$ 4,029,211</u>	27,684,573	<u>\$ 3,453,931</u>
Accumulated amortization	<u>4,029,211</u>		<u>3,453,931</u>	
	<u>\$ 23,467,816</u>		<u>\$ 24,230,642</u>	

During the year, the Organization has amortized \$840,638 (2016 - \$755,701) of these contributions and recognized them as revenue.

10. RELATED PARTY

The Organization has an economic interest in the Abilities Centre Foundation (the "Foundation") given that the Foundation solicits funds in the name of the Organization, and substantially all of the funds solicited are intended by the contributor or are otherwise required to be transferred to the Organization. No amounts were received from the Organization in 2017 or 2016. Additionally, no amount was due to or from the Foundation as at December 31, 2017 or 2016.

11. COMMITMENTS

The Organization has entered into a grounds lease for the land upon which the Organization is constructed. The lease is for a term of twenty years and commenced in April 2010, with option to extend the lease for an additional twenty years. The annual lease fee is \$100.

Upon termination of the lease, the facility shall become the exclusive property of the Town of Whitby, free of all encumbrances. Upon election of the Town of Whitby, the Organization, at its own cost, may be required to repair all damage occasioned by the construction of the facility. Additionally, the Capital Reserve Fund (as discussed in Note 12) is to be transferred to the Town of Whitby, without encumbrances, upon termination of the lease.

12. EXTERNALLY RESTRICTED - CAPITAL RESERVE FUND

The Organization, as required by the grounds lease with the Town of Whitby, has established the Capital Reserve Fund for financing the future maintenance of the building to maintain its condition in accordance with the applicable standards. The Board established the Capital Reserve Fund with an initial contribution of \$10,000 in 2013 and contributed an additional \$10,000 in each year from 2014 to 2017. The scheduled contribution for 2017 of \$10,000 was made subsequent to year-end and as such is not reflected in the financial statements.

The Board of Directors uses the capital reserve fund study prepared by GRG Building Consultants Inc. completed in 2013 and dated September 2, 2015 and other such information available to them in evaluating the adequacy of the Capital Reserve Fund. The capital reserve fund study suggests an ending balance at December 31, 2017 of \$1,153,271. The actual ending balance of \$40,000 is held within the Organization's operating bank account.

Any evaluation of the adequacy of the Capital Reserve Fund is based upon assumptions as to future interest and inflation rates and estimate life expectancy of the building components and their replacements costs. These factors are subject to change over time and the changes may be material.

ABILITIES CENTRE DURHAM
NOTES TO THE FINANCIAL STATEMENTS - Cont'd.
YEAR ENDED DECEMBER 31, 2017

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Organization is exposed to and manages various risks resulting from its financial instruments. The following disclosures provide information to assist users of the financial statements in assessing the extent of risk related to the Organization's financial instruments.

Credit risk

The Organization is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Organization's maximum exposure to credit risk represents the sum of the carrying value of its cash and cash equivalents and accounts receivable. The Organization's cash and cash equivalents are deposited with Canadian chartered banks and as a result management believes the risk of loss on these items to be unlikely. The Organization manages its credit risk of accounts receivable by reviewing accounts receivable aging monthly and following up on outstanding amounts. Management believes that all accounts receivables at year-end will be collected and has not deemed it necessary to establish an allowance for doubtful accounts.

Liquidity risk

Liquidity risk is the risk that the Organization cannot meet a demand for cash or fund its obligations as they become due. The Organization meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flow from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash. As discussed in note 2, the Organization's ability to manage its liquidity is dependent on its ability to renew credit facilities with favourable terms and generate sufficient membership and donation revenue.

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 is comprised of currency risk, interest rate risk and other price risk.

i) Currency risk

Currency risk refers to the risk that the fair value of instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The Organization's financial instruments are all denominated in Canadian dollars and it transacts primarily in Canadian dollars. As a result, management does not believe it is exposed to significant currency risk.

ii) Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Organization's exposure to interest rate risk arises from its line of credit and term loan payable both of which bear a variable interest rate. The organization also has an investment in a guaranteed investment certificate but interest rate risk is minimal as it bears a fixed rate of interest.

iii) Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. The Organization does not have any investments in marketable securities and therefore is not exposed to other price risk.

Changes in risk

There have been no significant changes in the Organization's risk exposures from the prior year.