F I N A N C I A L S T A T E M E N T S

For

ABILITIES CENTRE DURHAM

For year ended

DECEMBER 31, 2019

INDEPENDENT AUDITOR'S REPORT

To the directors of

ABILITIES CENTRE DURHAM

Qualified Opinion

We have audited the financial statements of Abilities Centre Durham (the Centre), which comprise the statement of financial position as at December 31, 2019, 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.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Centre as at December 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Centre derives revenue from fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Centre. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenue over expenses and cash flows from operations for the years ended December 31, 2019 and 2018, current assets as at December 31, 2019 and 2018, and net assets as at January 1 and December 31, 2019 and 2018. Our audit opinion on the financial statements for the year ended December 31, 2018 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Centre in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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 qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which describes the uncertainty of the Centre's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 Centre'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 Centre or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Centre's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Centre's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Centre to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Welch LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
June 26, 2020.

ABILITIES CENTRE DURHAM

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents (note 4)	$ 441,650	$ 200,942
Accounts receivable	371,413	198,680
Prepaid expenses	9,240	10,220
	822,303	409,842
CAPITAL ASSETS (note 5)	26,624,955	27,650,842
	$ 27,447,258	$ 28,060,684

LIABILITIES AND NET LIABILITIES

	2019	2018
CURRENT LIABILITIES		
Promissory note (note 6)	$ 1,000,000	$ 1,000,000
Accounts payable and accrued liabilities	221,687	358,796
Government remittances payable	16,260	1,936
Current portion of capital lease obligation (note 8)	32,589	91,444
Current portion of term loan (note 6)	5,454,721	5,715,424
Deferred revenue	549,196	417,027
Deferred contributions (note 7)	650,866	135,123
	7,925,319	7,719,750
CAPITAL LEASE OBLIGATION (note 8)	56,181	89,031
DEFERRED CAPITAL CONTRIBUTIONS (note 9)	21,967,730	22,764,333
	29,949,230	30,573,114
NET ASSETS (LIABILITIES)		
Unrestricted deficiency	(2,542,875)	(2,543,333)
Capital reserve fund - externally restricted (note 12)	40,903	30,903
	(2,501,972)	(2,512,430)
	$ 27,447,258	$ 28,060,684

Approved by the Board:

Wayne Gingrich
.... Director

.... Director

(See accompanying notes)

ABILITIES CENTRE DURHAM

STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2019

	Unrestricted	Capital Reserve Fund	Total 2019	Total 2018
Net assets (liabilities), beginning of year	$ (2,543,333)	$ 30,903	$ (2,512,430)	$ (2,508,157)
Net revenue over expenses (expenses over revenue)	10,458	-	10,458	(4,273)
Interfund transfer (note 12)	(10,000)	10,000	-	-
Net assets (liabilities), end of year	$ (2,542,875)	$ 40,903	$ (2,501,972)	$ (2,512,430)

(See accompanying notes)

ABILITIES CENTRE DURHAM

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2019

	2019	2018
Revenue		
Grants (note 7)	$ 1,964,968	$ 1,749,679
Program fees	1,195,063	1,056,701
Membership fees	1,185,545	1,188,800
Amortization of capital contributions (note 9)	796,603	823,483
Fundraising	517,727	556,349
Rentals	425,903	420,305
Interest and other income	85,667	77,467
	6,171,476	5,872,784
Expenses		
Staffing costs	3,270,953	3,099,495
Amortization	1,042,411	1,038,202
Occupancy costs	515,973	518,549
Program supplies	458,792	310,974
Office	233,160	158,406
Interest on term loan	219,298	201,110
Contracted services	149,190	343,777
Professional fees	77,965	29,008
Bank charges	74,228	72,122
Advertising and promotion	49,383	34,200
Fundraising-related expenses	47,429	52,840
Travel	22,236	18,374
	6,161,018	5,877,057
Net revenue over expenses (expenses over revenue)	$ 10,458	$ (4,273)

(See accompanying notes)

ABILITIES CENTRE DURHAM

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenue over expenses (expenses over revenue)	$ 10,458	$ (4,273)
Adjustments for:		
Amortization of capital assets	1,042,411	1,038,202
Amortization of capital contributions	(796,603)	(823,483)
	256,266	210,446
Changes in non-cash working capital components:		
Accounts receivable	(172,733)	(18,185)
Prepaid expenses	980	6,447
Accounts payable and accrued liabilities	(137,109)	160,764
Government remittances payable	14,324	-
Deferred revenue	132,169	87,256
Deferred contributions	515,743	135,123
	609,640	581,851
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of capital assets	(16,524)	(188,402)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Term loan repayments	(260,703)	(278,889)
Capital lease payments	(91,705)	(76,826)
	(352,408)	(355,715)
INCREASE IN CASH AND CASH EQUIVALENTS	240,708	37,734
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	200,942	163,208
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 441,650	$ 200,942

	2019	2018
Cash and cash equivalents is represented by:		
General	$ 400,747	$ 170,039
Capital reserve fund (note 12)	40,903	30,903
	$ 441,650	$ 200,942

(See accompanying notes)

1. NATURE OF OPERATIONS

Abilities Centre Durham (the "Centre") was incorporated without share capital under the Ontario Corporations Act on March 7, 2003. The Centre 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 Centre 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 Centre 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 Centre's deficiency in working capital. The Centre'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, and by executing their strategic plan which includes creating new sources of funding.

In mid-March 2020, subsequent to the Centre's year-end, the province of Ontario declared a state of emergency in response to the public health concerns originating from the spread of the coronavirus disease, resulting in the closure of the Centre on March 13, 2020. A high degree of uncertainty persists surrounding the full economic impact of the situation. The unpredictable nature of the spread of the disease makes it difficult to determine the length of time that the Centre's operations will be impacted. Consequently, at the time of issuance of these financial statements, the effect that the abrupt decline in economic activity will have on the Centre's operations, assets, liabilities, net assets, revenues and expenses is not yet known.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Revenue recognition

The Centre 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 when received 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.

3. **SIGNIFICANT ACCOUNTING POLICIES** - Cont'd.

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.

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	- 3 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 Centre under agreements which transfer substantially all of the benefits and risks of ownership to the Centre 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 Centre’s incremental cost of borrowing. Amortization is provided on the same basis as with other similar assets owned by the Centre.

Financial instruments

The Centre initially measures its financial assets and financial liabilities at fair value. The Centre 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 Centre'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 Centre 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 would be recorded in future periods.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2019	2018
Cash	$ 431,650	$ 190,372
Guaranteed investment certificate	10,000	10,570
	$ 441,650	$ 200,942

The guaranteed investment certificate matures March 30, 2020 with a fixed interest rate of 1.93% (2018 - 2.28%).

5. CAPITAL ASSETS

Capital assets consist of the following:

	2019		2018	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Building	$ 32,934,638	$ 6,495,579	$ 32,934,638	$ 5,628,839
Parking lot	42,122	24,202	42,122	14,558
Computer equipment and software	81,081	56,709	81,081	37,999
Sports and music equipment	305,661	213,655	305,661	123,855
Furniture, fixtures and equipment	535,246	483,648	518,722	426,131
	33,898,748	$ 7,273,793	33,882,224	$ 6,231,382
Less: accumulated amortization	(7,273,793)		(6,231,382)	
	$ 26,624,955		$ 27,650,842	

Building includes leasehold improvements obtained through a capital lease with a cost of $168,218 (2018 - $168,218) and accumulated amortization of $17,316 (2018 - $12,369).

Sports and music equipment includes sports equipment obtained through capital lease with a cost of $142,857 (2018 - $142,857) and accumulated amortization of $103,247 (2018 - $49,162)

Furniture, fixtures and equipment includes cleaning equipment obtained through capital lease with a cost of $16,368 (2018 - $16,368) and accumulated amortization of $10,076 (2018 - $5,250)

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

6. CREDIT FACILITIES

The Centre 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, May 1, 2017, May 1, 2018 and July 1, 2019. Under the latest amending agreement, all amounts outstanding are due June 1, 2020.

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. As at December 31, 2019, $5,454,721 (2018 - $5,715,424) was owing.

The Centre has an operating line of credit available in the amount of $250,000 (2018 - $250,000), bearing interest at the bank's prime lending rate. As at December 31, 2019, no amounts have been drawn on the line of credit facility (2018 - $nil). The Centre also has a credit card line with a limit of $30,000 (2018 - $30,000).

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

The Centre 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 31, 2020.

7. DEFERRED CONTRIBUTIONS

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

	2019	2018
Opening balance	$ 135,123	$ -
Contributions received	2,480,711	1,884,802
Revenue recognized	(1,964,968)	(1,749,679)
Ending balance	$ 650,866	$ 135,123

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8. CAPITAL LEASE OBLIGATIONS

The Centre has multiple capital leases with implicit interest rates between 2.47% and 12.95% that expire between February 1, 2020 and October 1, 2022. The future minimum lease payments under the capital leases are as follows:

2020	$ 35,083
2021	32,201
2022	25,334
Total minimum lease payments	92,618
Amount representing interest	(3,848)
Obligation under capital lease	88,770
Less: current portion	(32,589)
Long-term portion	$ 56,181

9. DEFERRED CAPITAL CONTRIBUTIONS

During the year, the Centre received capital contributions of $nil (2018 - $nil). The funds are to be used for the construction of the building and the purchase of sports equipment.

	2019		2018	
	Contribution	Accumulated amortization	Contribution	Accumulated amortization
Government - building	$ 21,000,000	$ 4,144,737	$ 21,000,000	$ 3,592,105
- equipment	77,813	68,644	77,813	40,545
Private - building	6,238,270	1,171,786	6,238,270	1,005,736
- equipment	120,000	83,186	233,464	146,828
	27,436,083	$ 5,468,353	27,549,547	$ 4,785,214
Less: accumulated amortization	(5,468,353)		(4,785,214)	
	$ 21,967,730		$ 22,764,333	

During the year, the Centre amortized $796,603 (2018 - $823,483) of these contributions and recognized them as revenue.

10. RELATED PARTY

The Centre has an economic interest in the Abilities Centre Foundation (the "Foundation") given that the Foundation solicits funds in the name of the Centre, and substantially all of the funds solicited are intended by the contributor or are otherwise required to be transferred to the Centre. No amounts were received from the Foundation in 2019 or 2018. Additionally, no amount was due to or from the Foundation as at December 31, 2019 or 2018.

11. COMMITMENTS

The Centre has entered into a grounds lease for the land upon which the Centre 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. The Town of Whitby may require the Centre, at its own cost, 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. CAPITAL RESERVE FUND

The Centre, 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 of Directors 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 2018. The scheduled contribution for 2019 of $10,000 was made subsequent to year-end and as such is not reflected in the financial statements. In 2018, restricted funds in the amount of $19,097 were used to repair a section of the roof. The amount was approved by the board, as the transaction took place in June 2018.

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, 2019 of $1,712,684. The actual ending balance of $40,903 is held within the Centre'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.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Centre 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 Centre’s financial instruments.

Credit risk

The Centre is exposed to credit risk resulting from the possibility that parties may default on their financial obligations. The Centre’s maximum exposure to credit risk represents the sum of the carrying value of its cash and cash equivalents and accounts receivable. The Centre’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 Centre 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.

13. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** - Cont'd.

Liquidity risk

Liquidity risk is the risk that the Centre cannot meet a demand for cash or fund its obligations as they become due. The Centre 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 Centre'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 Centre'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 Centre'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 Centre 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 Centre 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 Centre's risk exposures from the prior year.

14. **COMPARATIVE FIGURES**

Comparative figures have been reclassified where necessary to conform to the presentation adopted in the current year.