

Financial Statements of

QUEST OUTREACH SOCIETY

And Independent Auditors' Report thereon

Year ended August 31, 2020



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Quest Outreach Society

Report on the Audit of Financial Statements

Qualified Opinion

We have audited the financial statements of Quest Outreach Society (the "Entity"), which comprise:

- the statement of financial position as at August 31, 2020
- 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, except for the possible effects of the matter described in the "**Basis for Qualified Opinion**" section of our auditors' report, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at August 31, 2020, 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 Qualified Opinion

In common with many not-for-profit organizations, the Entity derives revenue from donations, 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 Entity.

Therefore, we were not able to determine whether any adjustments might be necessary to:

- the current assets and deferred contributions reported in the statements of financial position as at August 31, 2020 and August 31, 2019
- the donations revenue and excess of revenue over expenses reported in the statements of operations for the years ended August 31, 2020 and August 31, 2019
- the unrestricted net assets, at the beginning and end of the year, reported in the statements of changes in net assets for the years ended August 31, 2020 and August 31, 2019
- the excess of revenue over expenses reported in the statements of cash flows for the years ended August 31, 2020 and August 31, 2019.



Our opinion on the financial statements for the year ended August 31, 2019 was qualified accordingly because of the possible effects of this limitation of scope.

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 Entity 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 qualified 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 Entity’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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosure 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 Entity'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 Entity 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 matter 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.

Report on Other Legal and Regulatory Requirements

As required by the *Societies Act* (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding period.

Chartered Professional Accountants

Vancouver, Canada
November 25, 2020

QUEST OUTREACH SOCIETY

Statement of Financial Position

August 31, 2020, with comparative information for 2019

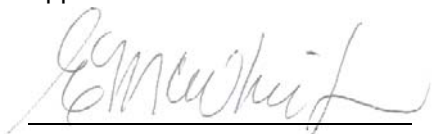
	2020	2019
Assets		
Current assets:		
Cash	\$ 1,343,237	\$ 1,067,600
Accounts receivable	44,126	22,078
Prepaid expenses	47,037	50,492
	<u>1,434,400</u>	<u>1,140,170</u>
Tangible capital assets (note 4)	1,804,519	1,876,904
	<u>\$ 3,238,919</u>	<u>\$ 3,017,074</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 153,501	\$ 164,588
Deferred contributions (note 6)	178,771	197,484
	<u>332,272</u>	<u>362,072</u>
Deferred capital contributions (note 7)	220,674	293,703
	<u>552,946</u>	<u>655,775</u>
Net assets:		
Invested in tangible capital assets (note 8)	1,583,845	1,583,201
Unrestricted	1,102,128	778,098
	<u>2,685,973</u>	<u>2,361,299</u>
Commitments (note 9)		
Subsequent events (note 13)		
	<u>\$ 3,238,919</u>	<u>\$ 3,017,074</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director

QUEST OUTREACH SOCIETY

Statement of Operations

Year ended August 31, 2020, with comparative information for 2019

	2020	2019
Revenue:		
Grocery and online market	\$ 2,310,737	\$ 2,352,824
Donations:		
Government and foundations	304,069	72,386
Public	380,123	170,665
Amortization of deferred capital contributions (note 7)	92,359	143,949
Other income (note 12)	27,316	1,136
	<u>3,114,604</u>	<u>2,740,960</u>
Expenses:		
Wages, contractors and benefits	1,678,313	1,560,020
Rent and utilities	340,038	315,200
Amortization	122,608	153,830
Vehicle operations	151,820	139,986
Garbage and cleaning supplies	86,100	81,642
Bank charges and interest	63,269	45,909
Repairs and maintenance	61,826	45,217
Office	43,036	40,685
Food	186,651	18,004
Insurance	17,932	17,906
Professional fees	35,174	13,322
Training	1,313	5,121
Advertising	1,850	3,623
	<u>2,789,930</u>	<u>2,440,465</u>
Excess of revenue over expenses	<u>\$ 324,674</u>	<u>\$ 300,495</u>

See accompanying notes to financial statements.

QUEST OUTREACH SOCIETY

Statement of Changes in Net Assets

Year ended August 31, 2020, with comparative information for 2019

	Invested in tangible capital assets (note 8)	Unrestricted	Total 2020	Total 2019
Balance, beginning of year	\$ 1,583,201	\$ 778,098	\$ 2,361,299	\$ 2,060,804
Excess of revenue over expenses	(30,249)	354,923	324,674	300,495
Transfer for purchase of tangible capital assets	30,893	(30,893)	-	-
Balance, end of year	\$ 1,583,845	\$ 1,102,128	\$ 2,685,973	\$ 2,361,299

See accompanying notes to financial statements.

QUEST OUTREACH SOCIETY

Statement of Cash Flows

Year ended August 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operating:		
Excess of revenue over expenses	\$ 324,674	\$ 300,495
Items not affecting cash:		
Amortization of deferred capital contributions	(92,359)	(143,949)
Amortization of tangible capital assets	122,608	153,830
	354,923	310,376
Changes in non-cash operating working capital:		
Accounts receivable	(22,048)	(4,192)
Prepaid expenses	3,455	(1,947)
Accounts payable and accrued liabilities	(11,087)	50,957
Deferred contributions	(87,682)	56,687
	237,561	411,881
Financing:		
Contributions received for capital	72,900	63,000
Investing:		
Purchase of tangible capital assets	(34,824)	(36,202)
Increase in cash	275,637	438,679
Cash, beginning of year	1,067,600	628,921
Cash, end of year	\$ 1,343,327	\$ 1,067,600
Non-cash transactions:		
In-kind tangible capital asset contributions	\$ 15,399	\$ -

See accompanying notes to financial statements.

QUEST OUTREACH SOCIETY

Notes to Financial Statements

Year ended August 31, 2020

1. Nature of operations:

Quest Outreach Society (the "Society") is a not-for-profit organization incorporated on June 15, 1992 pursuant to the *Society Act* (British Columbia) and then transitioned to the new *Societies Act* (British Columbia). The Society is a registered charity pursuant to the *Income Tax Act* and exempt from income taxes.

The Society's primary objectives are to reduce hunger with dignity, build community, and foster sustainability. Its area of service is currently the Lower Mainland in British Columbia which includes five low-cost not-for-profit grocery markets in Vancouver (two stores), Surrey (one store), Burnaby (one store) and North Vancouver (one store).

The objectives are met by engaging in these activities:

- To rescue food from many sectors of the local food industry that might otherwise go to waste unnecessarily, and redistribute it to individuals who face food security challenges;
- To manage a food distribution system which includes a warehouse, low-cost grocery markets, and delivery trucks to ensure food is reallocated efficiently to individuals and partners in the community;
- To partner with social service agencies to help their clients access healthy, affordable food in a dignified manner, freeing up the capacity of these agencies to focus their energies and resources on their respective core strengths in the local community;
- To provide opportunities for these clients to engage in volunteer work and training workshops at the Society's facilities, and thus rebuild the capacity of these individuals to re-integrate into the workforce;
- To operate its food distribution system in a proactive manner to reduce food waste from reaching landfills and thus reducing greenhouse gas emissions, including through partnerships with local businesses and using environmentally-conscious practices resulting in more effective recycling programs for non-organic materials.

2. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook - *Accounting*. The significant accounting policies are as follows:

(a) Revenue recognition:

The Society follows the deferral method of accounting for contributions. Restricted non-capital contributions, including gaming, are recognized as revenue in the year in which the related expenses are incurred. Restricted capital contributions received specifically for the acquisition of tangible capital assets are initially recorded as deferred contributions and transferred to and recorded as deferred capital contributions when the amounts have been spent on tangible capital assets. Deferred capital contributions are amortized to revenue on the same basis as the related tangible capital assets are amortized.

QUEST OUTREACH SOCIETY

Notes to Financial Statements

Year ended August 31, 2020

2. Significant accounting policies (continued):

(a) Revenue recognition (continued):

Unrestricted contributions are recognized in the year in which funds are received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Grocery revenue is recognized at the point of sale in the grocery store, and online market revenue is recognized when the product is shipped to the customer.

(b) Contributed services and materials:

The Society receives significant amounts of donated food which are subsequently sold or distributed at either a discounted cost recovery basis or at no cost. Donated food received is not recognized in the financial statements and no value has been assigned to the inventory on hand at year-end due to the difficulty in reasonably estimating their fair value.

The Society receives significant volunteer hours to assist in carrying out its service delivery activities. Due to the difficulty in reasonably estimating their fair value, these contributed services are not recognized in the financial statements.

(c) Tangible capital assets:

Tangible capital assets are initially recorded at cost. Donated tangible capital assets are recorded at fair value at the date of contribution, provided a fair value can be reasonably determined. Tangible capital assets, except for land, are amortized over their estimated useful lives using the straight-line method at the following annual rates:

Asset	Rate
Building	30 years
Leasehold improvements	Lesser of lease term and useful life
Office equipment	5 years
Automotive equipment	3 years
Forklift	3 years
Kitchen equipment	5 years
Computer equipment	3 years

Repairs and maintenance costs are charged to expense. Betterments that extend the estimated useful life of an asset are capitalized. The Society regularly reviews for impairment of its property and equipment whenever events or changes in circumstances indicate that the asset no longer has long-term service potential to the Society or that the value of future economic benefits or service potential associated with the asset is less than its carrying amount. If such conditions exist, an impairment loss is measured and recorded in the statement operations at the amount by which the carrying amount of the net asset exceeds its fair value or replacement cost.

QUEST OUTREACH SOCIETY

Notes to Financial Statements

Year ended August 31, 2020

2. Significant accounting policies (continued):

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. 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. The Society has not elected to carry any such financial instruments at fair value.

Financial assets carried at cost or amortized cost 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, the Society 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 the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Society 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.

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of useful lives of tangible capital assets for amortization purposes. Actual results could differ from these estimates.

(f) New accounting standards:

In March 2018, the Accounting Standards Board issued "Basis for Conclusions – Accounting Standards Improvements for Not-for-Profit Organizations" resulting in the introduction of three new handbook sections in Canadian accounting standards for not-for-profit organizations; Section 4433, *Tangible capital assets held by not-for-profit organizations*, Section 4434, *Intangible assets held by not-for-profit organizations* and Section 4441, *Collections held by not-for-profit organizations*.

The amendments are effective for financial statements with fiscal years beginning on or after January 1, 2019. Management has considered the application of the aforementioned new accounting standards and the implementation of these changes had no impact on the Society's financial statements.

3. Operating line of credit:

The Society has an operating line of credit from a credit union with a limit of \$100,000 at prime plus 1.00%. As at August 31, 2020 the Society has no funds drawn against its line of credit (2019 - nil).

QUEST OUTREACH SOCIETY

Notes to Financial Statements

Year ended August 31, 2020

4. Tangible capital assets:

			2020	2019
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 1,477,853	\$ -	\$ 1,477,853	\$ 1,477,853
Building	263,434	72,554	190,880	199,296
Leasehold improvements	355,674	312,999	42,675	87,094
Office equipment	288,153	214,069	74,084	82,063
Automotive equipment	152,813	152,813	-	19,928
Forklift	23,970	19,863	4,107	6,313
Kitchen equipment	158,533	152,774	5,759	3,457
Computer equipment	43,353	34,192	9,161	900
	\$ 2,763,783	\$ 959,264	\$ 1,804,519	\$ 1,876,904

5. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$2,140 (2019 - \$2,140) for payroll-related taxes.

6. Deferred contributions:

Deferred contributions represent restricted contributions related to the grocery stores, expenses of future periods, and for tangible capital asset purchases.

	2020	2019
Balance, beginning of year	\$ 197,484	\$ 113,999
Restricted contributions received	215,381	192,073
Amounts earned and recognized as revenue	(230,163)	(72,386)
Restricted contributions spent on tangible capital assets (note 7)	(3,931)	(36,202)
Balance, end of year	\$ 178,771	\$ 197,484

7. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount of funds received and restricted for and spent on tangible capital assets.

	2020	2019
Balance, beginning of year	\$ 293,703	\$ 401,450
Restricted contributions spent on tangible capital assets (note 6)	3,931	36,202
In-kind tangible capital asset contributions	15,399	-
Amortization of deferred capital contributions to revenue	(92,359)	(143,949)
Balance, end of year	\$ 220,674	\$ 293,703

QUEST OUTREACH SOCIETY

Notes to Financial Statements

Year ended August 31, 2020

8. Net assets invested in tangible capital assets:

(a) Net assets invested in tangible capital assets is calculated as follows:

	2020	2019
Tangible capital assets	\$ 1,804,519	\$ 1,876,904
Amounts funded by deferred capital contributions	(220,674)	(293,703)
	\$ 1,583,845	\$ 1,583,201

(b) Included in excess of revenue over expenses related to net assets invested in tangible capital assets is the following:

	2020	2019
Amortization of deferred capital contributions	\$ 92,359	\$ 143,949
Amortization of tangible capital assets	(122,608)	(153,830)
	\$ (30,249)	\$ (9,881)

(c) Change in net assets invested in tangible capital assets:

	2020	2019
Purchase of tangible capital assets	\$ 34,824	\$ 36,202
Amounts funded by deferred capital contributions	(3,931)	(36,202)
	\$ 30,893	\$ -

9. Commitments:

The Society is committed to make monthly lease payments for premises and trucks as follows:

2021	\$ 197,422
2022	115,446
2023	43,175
2024	5,022
	\$ 361,065

QUEST OUTREACH SOCIETY

Notes to Financial Statements

Year ended August 31, 2020

10. Financial risks:

The Society is exposed to various risks through its financial instruments, without being exposed to significant concentrations of risk.

(a) Liquidity risk:

Liquidity risk is the risk that the Society will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Society manages its liquidity risk by monitoring its operating requirements. The Society prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Society is exposed to credit risk with respect to its accounts receivable. The Society assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts.

The Society believes that it is not exposed to significant currency, interest rate, market, or other price risk arising from its financial instruments.

There has been no change to the risk exposure from 2019 other than the potential impact related to COVID-19 pandemic (note 13).

11. Remuneration disclosure under Societies Act (British Columbia):

For the year ended August 31, 2020, the Society paid total remuneration of \$300,223 (2019 - \$289,080) to three (2019 - three) employees, each of whom received total annual remuneration of \$75,000 or greater. There were no contractors (2019- nil) that were remunerated greater than the \$75,000 threshold.

No remuneration was paid to any member of the board of directors.

12. Other income:

Included in other income for the year ended August 31, 2020 is government assistance related to the Temporary Wage Subsidy of \$25,000 (2019 – nil) received from the Government of Canada to assist with the COVID-19 pandemic (note 13).

13. Subsequent events:

In March of 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and ongoing and the ultimate duration and magnitude of the impact on the economy are not known at this time.

QUEST OUTREACH SOCIETY

Notes to Financial Statements

Year ended August 31, 2020

13. Subsequent events (continued):

Subsequent to year-end, the Society has experienced continued pressure on donation and grocery revenues as a result of the COVID-19 pandemic. There is continued uncertainty over future cash flows and there may be a significant impact on future operations. An estimate of the financial effect is not practicable at this time. Management will continue to monitor the ongoing financial impact on its cash and budget forecasts and adjust its operations as required to ensure its ability to fulfill its obligations and continue operations.

14. Comparative information:

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