Financial statements of

Teen Challenge Canada Inc.

December 31, 2019

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Independent Auditor's Report

To the Board of Directors of
Teen Challenge Canada Inc.

Qualified Opinion

We have audited the financial statements of Teen Challenge Canada Inc. (the "Organization"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations, change in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph below, the financial statements present fairly, in all material respects, the financial position of the Organization 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 Organization derives revenue from the general public in the form of donations and fundraising, 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 Organization. Therefore, we were not able to determine whether any adjustments might be necessary to donations and fundraising revenue, deficiency of revenues over expenses, and cash flows from operations for the year then ended and net assets as at December 31, 2019.

Responsibility of Management 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

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 GAAS 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 GAAS, 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 Organization'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 Organization'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 Organization 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.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
London, Ontario
June 4, 2020

Teen Challenge Canada Inc.
Statement of operations
year ended December 31, 2019

	2019	2018
	$	$
Revenues		
Donations and fundraising	**13,054,268**	10,858,052
Contract work and retail sales	**98,142**	115,294
Entrance fees	**218,650**	219,470
Other	**15,037**	248,006
	13,386,097	11,440,822
Expenses		
Personnel costs	**7,071,312**	6,301,342
Program costs		
Facilities and equipment	**1,762,186**	1,652,608
Other program costs	**1,472,950**	1,262,481
Fundraising costs	**1,438,614**	1,063,926
Administration, financial and interest	**419,591**	421,159
Other	**960**	870
	12,165,613	10,702,386
Excess of revenues over expenses before the undernoted	**1,220,484**	738,436
Loss (gain) on sale of capital assets	**32,368**	(3,992)
Amortization	**994,872**	906,721
Excess (deficiency) of revenues over expenses	**193,244**	(164,293)

The accompanying notes are an integral part of this financial statement.

	Investment in capital assets $	Accumulated surplus $	Total $
Balance, December 31, 2018	**5,504,727**	**275,443**	**5,780,170**
Excess (deficiency) of revenues over expenses	**1,048,685**	**(855,441)**	**193,244**
Increase of debt principal, net	**(682,752)**	**682,752**	**—**
Additions to deferred capital contributions	**(4,638,000)**	**4,638,000**	**—**
Additions to capital assets, net of disposals	**3,593,927**	**(3,593,927)**	**—**
Additions to designated cash	**1,012,712**	**(1,012,712)**	**—**
Balance, December 31, 2019	**5,839,299**	**134,115**	**5,973,414**

	Investment in capital assets $	Accumulated surplus $	Total $
Balance, December 31, 2017	5,504,072	440,391	5,944,463
Excess (deficiency) of revenues over expenses	559,497	(723,790)	(164,293)
Decrease of debt principal, net	191,026	(191,026)	—
Additions to deferred capital contributions	(4,221,000)	4,221,000	—
Additions to capital assets, net of disposals	3,180,427	(3,180,427)	—
Additions to designated cash	290,705	(290,705)	—
Balance, December 31, 2018	5,504,727	275,443	5,780,170

The accompanying notes are an integral part of this financial statement.

	Notes	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents		**585,964**	805,031
Accounts receivable - trade and other receivables		**583,069**	747,166
Prepaid expenses		**81,544**	97,278
Inventory		**32,579**	33,648
		1,283,156	1,683,123
Designated cash	3	**1,999,134**	986,422
Capital assets	4	**17,936,691**	15,370,004
		21,218,981	18,039,549
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**1,138,764**	1,395,407
Government remittances payable		**10,275**	12,271
Current portion of long-term debt	6	**2,001,455**	1,793,391
		3,150,494	3,201,069
Deferred capital contributions	5	**9,639,456**	7,077,381
Long-term debt	6	**2,455,617**	1,980,929
		15,245,567	12,259,379
Commitments	8		
Net assets			
Investment in capital assets		**5,839,299**	5,504,727
Accumulated surplus		**134,115**	275,443
		5,973,414	5,780,170
		21,218,981	18,039,549

The accompanying notes are an integral part of this financial statement.

Approved by the Board

_______________________ Director

_______________________ Director

	Notes	2019 $	2018 $
Operating activities			
Excess (deficiency) of revenues over expenses		**193,244**	(164,293)
Items not affecting cash			
Amortization of capital assets		**994,872**	906,722
Loss (gain) on sale of capital assets		**32,368**	(3,992)
Amortization of deferred capital contributions		**(2,075,925)**	(1,462,226)
Changes in non-cash working capital components	7	**(77,739)**	(61,249)
		(933,180)	(785,038)
Investing activities			
Increase in designated cash	3	**(1,012,712)**	(290,705)
Purchase of capital assets		**(3,636,176)**	(3,393,087)
Additions to deferred contributions		**4,638,000**	4,221,000
Proceeds on sale of capital assets		**42,249**	212,660
		31,361	749,868
Financing activity			
Increase (deficiency) of debt principal, net		**682,752**	(191,026)
Net change in cash and cash equivalents		**(219,067)**	(226,196)
Cash and cash equivalents, beginning of year		**805,031**	1,031,227
Cash and cash equivalents, end of year		**585,964**	805,031

The accompanying notes are an integral part of this financial statement.

1. Description of the organization

Teen Challenge Canada Inc. (the "Organization") is incorporated as a not-for-profit organization and is a registered charity under the Income Tax Act, registration No. B/N 10806-6663-RR-0001. The Organization received no operational government funding and provides residential rehabilitation to men and women with drug and alcohol related problems including spiritual, vocational and academic training. The head office is located in London, Ontario with offices in Saskatoon, Saskatchewan, and residential facilities in Priddis, Alberta, Allan, Saskatchewan, Hague, Saskatchewan, London, Ontario, Sault Ste. Marie, Ontario, King City, Ontario, Memramcook, New Brunswick, St. John's Newfoundland, and residential facilities under development in Sudbury, Ontario and Renfrew, Ontario.

2. Significant accounting policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook and include the following significant accounting policies:

Change in accounting policy

Adoption of Section 4433, Tangible capital assets held by non-for-profit organizations

Effective January 1, 2019, the Organization adopted Handbook Section 4433, Tangible capital assets held by not-for-profit organizations (“Section 4433”) replacing Section 4431 on the same topic. Section 4433 provides additional guidance related to componentization of tangible capital assets consisting of significant separable component parts, the recognition of partial impairments when the conditions indicate a tangible capital asset is impaired and related impairment disclosures. In accordance with the transition provisions, the Organization has applied Section 4433 prospectively. There was no impact on the disclosures or amounts recorded in the financial statements of the Organization related to the adoption of Section 4433.

Revenue recognition

The Organization 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 they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Donations and fundraising funds are recorded when the cash is received. No amounts have been recognized for pledged donations.

Contract work and retail sales revenues are recognized as revenue when the services are performed.

Entrance fees are recognized as revenue proportionately over the fiscal year to which they relate.

Donations in kind

Certain individuals and organizations contribute to the Organization by donating services or products rather than cash. Donations of $3,333,918 (2018 - $4,416,338) were received during the current year and are recorded in the financial statements at fair market value as donations in kind and include capital assets, inventory for resale, food, material, and donated vehicles.

2. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value when the Organization becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost.

Financial assets measured at amortized cost include cash and accounts receivable. Financial liabilities measured at amortized cost include account payable and accrued liabilities, government remittances payable, and long term debt.

Transaction costs related to financial instruments measured subsequent to initial recognition at fair value are expensed as incurred. Transaction costs related to other financial instruments are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the straight-line method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life of the item using the straight-line method and recognized in net earnings as interest income or expense.

With respect to financial assets measured at cost or amortized cost, the Organization recognizes in net earnings an impairment loss, if any, when there are indicators of impairment and it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to net earnings in the period the reversal occurs.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term investments with maturities of three months or less from the date of acquisition.

Inventory

Inventory held for resale through the vehicle donation program is valued at the lower of cost and net realizable value. Cost is determined on the specified unit basis.

Impairment of long-lived assets

When a capital asset no longer has any long-term service potential to the Organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

2. Significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost except for donations of vehicles, equipment, land, and buildings which are donated to the Organization at no cost and are recorded at fair market value at the time of the donation as determined by qualified appraisers. Amortization is based on their estimated useful life using the following methods and rates:

Buildings	Diminishing balance	5%
Property improvements	Diminishing balance	20%
Equipment		
Shop equipment	Diminishing balance	10%
Equipment	Diminishing balance	20%
Computer equipment	Diminishing balance	20%
Vehicles	Diminishing balance	30%

Deferred capital contributions

Deferred capital contributions are deferred and amortized over the life of the related capital asset.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standard for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates have been made in determining the estimated useful life of capital assets, the net realizable value of unsold vehicles to determine inventory write-offs, and accrued liabilities. Actual results could differ from these estimates.

3. Designated cash

Designated cash represents donations designated by their donors for specific projects or uses not yet completed at year-end.

4. Capital assets

	Cost	**Accumulated amortization**	**2019 Net book value**	2018 Net book value
	$	**$**	**$**	$
Land	**3,420,589**	**—**	**3,420,589**	3,255,789
Buildings	**14,668,530**	**4,671,063**	**9,997,467**	10,062,164
Property improvements	**199,985**	**95,523**	**104,462**	2,256
Equipment	**2,318,203**	**1,974,365**	**343,838**	354,681
Computer equipment	**1,587,635**	**1,101,538**	**486,097**	503,298
Vehicles	**1,350,030**	**771,487**	**578,543**	409,645
Construction in progress	**3,005,695**	**—**	**3,005,695**	782,171
	26,550,667	**8,613,976**	**17,936,691**	15,370,004

5. Deferred capital contributions

Deferred capital contributions represent the unamortized amount of donations received for the purchase of capital assets. These amounts are not subject to repayment and are recorded only to achieve a matching of revenues with the future associated depreciation of the capital assets. The amortization of deferred capital contributions is recorded within the donations and fundraising amount on the Statement of Operations.

	2019	2018
	$	$
Balance, beginning of year	**7,077,381**	4,318,606
Contributions received for capital purposes	**4,638,000**	4,221,000
Amortization of deferred capital contributions	**(2,075,925)**	(1,462,225)
	9,639,456	7,077,381

In 2015, the Organization launched a Campaign to raise funds for construction of new centres and expansions to current centers. 88% (2018 – 80%) of the balance of deferred capital contributions is related to this capital campaign.

6. Long-term debt

	2019	2018
	$	$
Loans and mortgages payable, bearing interest from 0.0% to 6.5%, collateralized by various land, buildings, certain equipment and vehicles with a net book value of $7,244,765, due at various dates, up to December 30, 2027	**4,157,554**	3,564,730
Loan payable, unsecured, due December 24, 2021, bearing interest at 0.0%	**150,000**	—
Loans payable, unsecured, due on demand with no fixed maturity date, bearing interest at 7.0%	**21,000**	21,000
Mortgage payable, due January 1, 2021, bearing interest at 4.7%, collateralized by property in Memramcook, NB with a net book value of $327,803	**24,082**	46,437
Mortgage payable, due February 1, 2021, bearing interest at 2.9%, collateralized by the property in Allan, SK with a net book value of $710,237	**45,709**	51,443
Loan payable, due September 6, 2021, bearing interest at 3.5%, covered by a general security agreement	**58,727**	90,710
Total debt	**4,457,072**	3,774,320
Current portion	**2,001,455**	1,793,391
	2,455,617	1,980,929

The total interest paid on the long-term debt totaled $204,198 (2018 - $187,109).

6. Long-term debt

Principal payments required in each of the next five years and thereafter are as follows:

	$
2020	2,001,455
2021	500,560
2022	498,125
2023	475,768
2024	834,243
Thereafter	146,921
	4,457,072

7. Changes in non-cash working capital components

	2019	2018
	$	$
Accounts receivable - trade and other receivables	**164,097**	(172,695)
Prepaid expenses	**15,734**	22,919
Inventory	**1,069**	(5,424)
Accounts payable and accured liabilities	**(256,643)**	182,981
Government remittances payable	**(1,996)**	(89,030)
	(77,739)	(61,249)

8. Commitments

The Organization leases office equipment under various operating leases that expire in 2020 to 2024. Future lease payments aggregate $1,465,958 and include the following amounts payable over the next five years:

	$
2020	379,788
2021	347,908
2022	278,183
2023	262,714
2024	197,365
	1,465,958

9. Financial instruments

Interest rate risk

The long-term debt generally bears interest at fixed rates. Consequently, the cash flow exposure is not significant.

Liquidity risk

The Organization's objective is to have sufficient liquidity to meet its liabilities when due. The Organization monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2019, the most significant financial liabilities are accounts payable and accrued liabilities and long-term debt.

10. Bank advances

In the year the Organization obtained a letter of credit authorized for $74,853, expiring in July 2020, in relation to a construction project. Advances are charged at an interest rate of 2.25%, payable annually, with a minimum interest payment of $300. There was $Nil drawn upon from the letter of credit as at December 31, 2019.

11. Subsequent events

Subsequent to year-end, on March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Organization in future periods.