Financial statements of
Teen Challenge Canada Inc.

December 31, 2020

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, 2020, 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 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 Organization as at December 31, 2020, and the results of its operations 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, 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 fundraising revenue, excess of revenues over expenses, and cash flows from operations for the year ended December 31, 2020, and net assets. Our audit opinion on the financial statements for the year ended December 31, 2020 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 Organization 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.

Other Matter

The financial statements of the Organization for the year ended December 31, 2019 were audited by another accountant who expressed a similar qualified opinion on those statements on June 4, 2020.

Responsibilities 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 private enterprises 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.

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 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.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants
June 11, 2021

Teen Challenge Canada Inc.

Statement of operations

year ended December 31, 2020

	Notes	2020 $	2019 $
Revenues			
Donations and fundraising		**11,482,552**	13,054,268
Contract work and retail sales		**48,067**	98,142
Entrance fees		**98,910**	218,650
Other	12	**1,446,842**	15,037
		13,076,371	13,386,097
Expenses			
Personnel costs		**7,239,981**	7,071,312
Program costs			
Facilities and equipment		**1,518,458**	1,762,186
Other program costs		**1,077,165**	1,472,950
Fundraising costs		**828,350**	1,438,614
Administration, financial and interest		**475,336**	420,551
		11,139,290	12,165,613
Excess of revenues over expenses before the undernoted		**1,937,081**	1,220,484
Loss on sale of capital assets		**1,658**	32,368
Amortization		**1,099,503**	994,872
Excess of revenues over expenses		**835,920**	193,244

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

	Note	Investment in capital assets $	Endowment fund $	Accumulated surplus $	Total $
Balance, December 31, 2019		**5,839,299**	**—**	**134,115**	**5,973,414**
Excess of revenues over expenses		**206,257**	**850**	**628,813**	**835,920**
Increase of debt principal, net		**(511,104)**	**—**	**511,104**	**—**
Additions to deferred capital contributions		**(3,901,000)**	**—**	**3,901,000**	**—**
Additions to capital assets, net of disposals		**4,639,305**	**—**	**(4,639,305)**	**—**
Additions to designated cash		**(589,387)**	**—**	**589,387**	**—**
Endowment fund contributions	4	**—**	**500,000**	**—**	**500,000**
Balance, December 31, 2020		**5,683,370**	**500,850**	**1,125,114**	**7,309,334**

	Investment in capital assets $	Endowment Fund $	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

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

Teen Challenge Canada Inc.
Statement of financial position
as at December 31, 2020

	Notes	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents		**1,404,346**	585,964
Marketable securities	4	**500,850**	—
Accounts receivable - trade and other receivables		**639,113**	583,069
Prepaid expenses		**80,900**	81,544
Inventory		**18,490**	32,579
		2,643,699	1,283,156
Designated cash	3	**1,409,747**	1,999,134
Capital assets	5	**21,474,832**	17,936,691
		25,528,278	21,218,981
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**993,310**	1,138,764
Government remittances payable		**24,422**	10,275
Current portion of long-term debt	7	**1,911,900**	2,001,455
		2,929,632	3,150,494
Deferred capital contributions	6	**12,233,036**	9,639,456
Long-term debt	7	**3,056,276**	2,455,617
		18,218,944	15,245,567
Commitments	9		
Significant events	13		
Net assets			
Investment in capital assets		**5,683,370**	5,839,299
Endowment fund	4	**500,850**	—
Accumulated surplus		**1,125,114**	134,115
		7,309,334	5,973,414
		25,528,278	21,218,981

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

Approved by the Board

_______________ Director

_______________ Director

Teen Challenge Canada Inc.

Statement of cash flows

year ended December 31, 2020

	Notes	2020 $	2019 $
Operating activities			
Excess of revenues over expenses		**835,920**	193,244
Items not affecting cash			
Amortization of capital assets		**1,099,503**	994,872
Loss on sale of capital assets		**1,658**	32,368
Amortization of deferred capital contributions		**(1,307,418)**	(2,075,925)
Changes in non-cash working capital components	8	**(172,618)**	(77,739)
		457,045	(933,180)
Investing activities			
Decrease (increase) in designated cash	3	**589,387**	(1,012,712)
Purchase of capital assets		**(4,672,714)**	(3,636,176)
Additions to deferred contributions		**3,901,000**	4,638,000
Purchase of marketable securities		**(500,850)**	—
Proceeds on sale of capital assets		**33,410**	42,249
		(649,767)	31,361
Financing activity			
Endowment fund contributions		**500,000**	—
Increase of debt principal, net		**511,104**	682,752
		1,011,104	682,752
Net change in cash and cash equivalents		**818,382**	(219,067)
Cash and cash equivalents, beginning of year		**585,964**	805,031
Cash and cash equivalents, end of year		**1,404,346**	585,964

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. Other than funds received directly related to emergency COVID19 (coronavirus) pandemic support, the Organization did not receive any ongoing operational government funding. The Organization 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, Calgary, Alberta 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:

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. Endowment contributions are recognized as direct increases in net assets.

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 non-refundable and recognized as revenue in the year in which they are received.

Donations in kind

Certain individuals and organizations contribute to the Organization by donating services or products rather than cash. Donations of approximately $2,857,000 (2019 - $3,334,000) 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.

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.

2. Significant accounting policies (continued)

Financial instruments (continued)

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.

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.

2. Significant accounting policies (continued)

Capital assets (continued)

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.

Government assistance

The only government assistance received by the Organization is directly related to emergency COVID19 (coronavirus) pandemic support. Government assistance is recognized when there is reasonable assurance that the Organization has complied and will continue to comply with all conditions of the assistance.

3. Designated cash

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

4. Marketable securities

The organization has invested its endowment fund in a portfolio of marketable securities. Marketable securities are recorded at fair market value.

5. Capital assets

	Cost $	Accumulated amortization $	2020 Net book value $	2019 Net book value $
Land	**3,420,589**	**—**	**3,420,589**	3,420,589
Buildings	**17,832,283**	**5,329,126**	**12,503,157**	9,997,467
Property improvements	**199,985**	**116,416**	**83,569**	104,462
Equipment	**2,378,475**	**2,045,323**	**333,152**	343,838
Computer equipment	**1,603,977**	**1,202,026**	**401,951**	486,097
Vehicles	**1,493,485**	**912,241**	**581,243**	578,543
Construction in progress	**4,151,170**	**—**	**4,151,170**	3,005,695
	31,079,963	**9,605,131**	**21,474,832**	17,936,691

6. 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.

	2020 $	2019 $
Balance, beginning of year	**9,639,456**	7,077,381
Contributions received for capital purposes	**3,901,000**	4,638,000
Amortization of deferred capital contributions	**(1,307,420)**	(2,075,925)
	12,233,036	9,639,456

In 2015, the Organization launched a Campaign to raise funds for construction of new centres and expansions to current centers. 91% (2019 – 88%) of the balance of deferred capital contributions is related to this capital campaign.

7. Long-term debt

	2020 $	2019 $
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 $11,121,756, due at various dates, up to December 30, 2027	**4,263,163**	4,157,554
Loan payable, unsecured, Due on September 30, 2023, bearing interest at 0.0%	**325,000**	—
Loan payable, unsecured, due December 24, 2022, bearing interest at 0.0%	**250,000**	150,000
Loan payable, unsecured, Due on September 30, 2023, bearing interest at 5.0%	**43,000**	—
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 $316,255	**589**	24,082
Mortgage payable, due February 1, 2021, bearing interest at 2.9%, collateralized by the property in Allan, SK with a net book value of $677,318	**39,803**	45,709
Loan payable, due September 6, 2021, bearing interest at 3.5%, covered by a general security agreement	**25,621**	58,727
Total debt	**4,968,176**	4,457,072
Current portion	**1,911,900**	2,001,455
	3,056,276	2,455,617

The total interest paid on the long-term debt totaled $211,993 (2019 - $204,198).

7. Long-term debt (continued)

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

	$
2021	1,911,900
2022	948,446
2023	899,702
2024	869,548
2025	243,735
Thereafter	94,846
	4,968,176

8. Changes in non-cash working capital components

	2020	2019
	$	$
Accounts receivable - trade and other receivables	**(56,044)**	164,097
Prepaid expenses	**644**	15,734
Inventory	**14,089**	1,069
Accounts payable and accured liabilities	**(145,454)**	(256,643)
Government remittances payable	**14,147**	(1,996)
	(172,618)	(77,739)

9. Commitments

The Organization leases office equipment under various operating leases that expire in 2021 to 2025. Future lease payments aggregate $1,353,079 and include the following amounts payable over the next five years:

	$
2021	391,269
2022	290,517
2023	275,048
2024	205,832
2025	190,413
	1,353,079

10. 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, 2020, the most significant financial liabilities are accounts payable and accrued liabilities and long-term debt.

11. Pledges

The Origianization has been named as a beneficiary of certain life insurance. The residual value of the life insurance will be recorded on the financial statements when the proceeds are received by the Organization. The amount is not reflected in the accompanying financial statements.

12. Government assistance

On April 11, 2020, the government passed legislation to create the Canada Emergency Wage Subsidy ("CEWS") to provide eligible Canadian employers whose revenues have been impacted by the effects of the COVID-19 pandemic with wage subsidy funding.

Included in other revenue for the year ended December 31, 2020 is $1,430,947 of CEWS income.

13. Significant events

During the year, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Organization as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.