Financial statements of

# Teen Challenge Canada Inc.

December 31, 2021

# 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, 2021, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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, 2021, and its financial performance 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, 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, 2021, and net assets. Our audit opinion on the financial statements for the year ended December 31, 2021 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 Statements section of our report. We are independent of the Organization in accordance with the ethical requirements that are those standards are further described in the Auditor's Responsibilities for the Audit of the Financial 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 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.

### 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

London, Ontario — Chartered Professional Accountants

May 31, 2022 — Licensed Public Accountants

**Teen Challenge Canada Inc.**

**Statement of operations**

year ended December 31, 2021

| | Notes | 2021<br>$ | 2020<br>$ |
|---|---|---|---|
| **Revenues** | | | |
| Donations and fundraising | | **13,568,402** | 11,482,552 |
| Contract work and retail sales | | **31,322** | 48,067 |
| Entrance fees | | **181,850** | 98,910 |
| Other | 12 | **583,370** | 1,446,842 |
| | | **14,364,944** | 13,076,371 |
| **Expenses** | | | |
| Personnel costs | | **7,673,980** | 7,239,981 |
| Program costs | | | |
| Facilities and equipment | | **1,622,875** | 1,518,458 |
| Other program costs | | **1,075,559** | 1,077,165 |
| Fundraising costs | | **862,113** | 828,350 |
| Administration, financial and interest | | **487,442** | 475,336 |
| | | **11,721,969** | 11,139,290 |
| Excess of revenues over expenses before the undernoted | | **2,642,975** | 1,937,081 |
| (Gain) loss on sale of capital assets | | **(71,956)** | 1,658 |
| Amortization | | **1,363,228** | 1,099,503 |
| **Excess of revenues over expenses** | | **1,351,703** | 835,920 |

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

**Teen Challenge Canada Inc.**

**Statement of change in net assets**

year ended December 31, 2021

| | Note | Investment in capital assets $ | Endowment fund $ | Accumulated surplus $ | Total $ |
|---|---|---|---|---|---|
| **Balance, December 31, 2020** | | **5,683,370** | **500,850** | **1,125,114** | **7,309,334** |
| Excess of revenues over expenses | | **449,241** | **—** | **902,462** | **1,351,703** |
| Decrease of debt principal, net | | **397,396** | **—** | **(397,396)** | **—** |
| Additions to deferred capital contributions | | **(1,918,000)** | **—** | **1,918,000** | **—** |
| Additions to capital assets, net of disposals | | **2,090,384** | **—** | **(2,090,384)** | **—** |
| Additions to designated cash | | **(174,249)** | **—** | **174,249** | **—** |
| Investment income | 4 | **—** | **96,935** | **—** | **96,935** |
| **Balance, December 31, 2021** | | **6,528,142** | **597,785** | **1,632,045** | **8,757,972** |

| | Investment in capital assets $ | Endowment Fund $ | Accumulated surplus $ | Total $ |
|---|---|---|---|---|
| **Balance, December 31, 2019** | 5,839,299 | — | 134,115 | 5,973,414 |
| Excess (deficiency) 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 | — | 500,000 | — | 500,000 |
| **Balance, December 31, 2020** | 5,683,370 | 500,850 | 1,125,114 | 7,309,334 |

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

## Teen Challenge Canada Inc.
### Statement of financial position
as at December 31, 2021

| | Notes | 2021<br>$ | 2020<br>$ |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **2,072,165** | 1,404,346 |
| Accounts receivable - trade and other receivables | | **607,935** | 639,113 |
| Government remittance receivable | | **65,818** | — |
| Prepaid expenses | | **54,250** | 80,900 |
| Inventory | | **32,798** | 18,490 |
| | | **2,832,966** | 2,142,849 |
| Designated cash | 3 | **1,235,498** | 1,409,747 |
| Marketable securities | 4 | **442,637** | 500,850 |
| Capital assets | 5 | **22,273,944** | 21,474,832 |
| | | **26,785,045** | 25,528,278 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | **1,045,770** | 993,310 |
| Government remittances payable | | **—** | 24,422 |
| Current portion of long-term debt | 7 | **2,242,435** | 1,911,900 |
| | | **3,288,205** | 2,929,632 |
| Deferred capital contributions | 6 | **12,410,523** | 12,233,036 |
| Long-term debt | 7 | **2,328,345** | 3,056,276 |
| | | **18,027,073** | 18,218,944 |
| Commitments | 9 | | |
| Contingent liabilities | 13 | | |
| Significant events | 14 | | |
| **Net assets** | | | |
| Investment in capital assets | | **6,528,142** | 5,683,370 |
| Endowment fund | 4 | **597,785** | 500,850 |
| Accumulated surplus | | **1,632,045** | 1,125,114 |
| | | **8,757,972** | 7,309,334 |
| | | **26,785,045** | 25,528,278 |

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, 2021

| | Notes | **2021** **$** | 2020 $ |
|---|---|---|---|
| **Operating activities** | | | |
| Excess of revenues over expenses | | **1,351,703** | 835,920 |
| Items not affecting cash | | | |
| Amortization of capital assets | | **1,363,228** | 1,099,503 |
| (Gain) loss on sale of capital assets | | **(71,956)** | 1,658 |
| Amortization of deferred capital contributions | | **(1,740,513)** | (1,307,418) |
| Changes in non-cash working capital components | 8 | **5,740** | (172,617) |
| | | **908,202** | 457,046 |
| **Investing activities** | | | |
| Decrease in designated cash | 3 | **174,249** | 589,387 |
| Purchase of capital assets | | **(2,316,450)** | (4,672,715) |
| Additions to deferred contributions | | **1,918,000** | 3,901,000 |
| Purchase of marketable securities | | **—** | (500,850) |
| Proceeds on sale of capital assets | | **226,066** | 33,410 |
| | | **1,865** | (649,768) |
| **Financing activity** | | | |
| Endowment fund contributions | | **—** | 500,000 |
| Endowment investment income | | **96,935** | — |
| Gain on endowment fund | | **58,213** | — |
| (Decrease) increase of debt principal, net | | **(397,396)** | 511,104 |
| | | **(242,248)** | 1,011,104 |
| Net change in cash and cash equivalents | | **667,819** | 818,382 |
| Cash and cash equivalents, beginning of year | | **1,404,346** | 585,964 |
| **Cash and cash equivalents, end of year** | | **2,072,165** | 1,404,346 |

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, Renfrew, Ontario, Memramcook, New Brunswick, St. John's Newfoundland, and a residential facility under development in Sudbury, 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 $3,830,849 (2020 - $2,857,000) 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, except for marketable securities, which are designated to be measured at fair value. Changes in fair value are recognized in the changes in net assets.

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

## 2. Significant accounting policies (continued)

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. 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% |

## 2. Significant accounting policies (continued)

*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. Included in designated cash is restricted cash relating to the endowment fund of $155,148 (2020 - $nil).

## 4. Marketable Securities

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

## 5. Capital assets

| | **Cost** | **Accumulated amortization** | **2021 Net book value** | 2020 Net book value |
|---|---|---|---|---|
| | **$** | **$** | **$** | $ |
| Land | **3,420,589** | **—** | **3,420,589** | 3,420,589 |
| Buildings | **23,578,414** | **6,241,590** | **17,336,824** | 12,503,157 |
| Property improvements | **199,985** | **133,130** | **66,855** | 83,569 |
| Equipment | **2,388,271** | **2,105,030** | **283,241** | 333,152 |
| Computer equipment | **1,625,611** | **1,286,743** | **338,868** | 401,951 |
| Vehicles | **1,679,660** | **1,003,867** | **675,793** | 581,243 |
| Construction in progress | **151,774** | **—** | **151,774** | 4,151,170 |
| | **33,044,304** | **10,770,360** | **22,273,944** | 21,474,832 |

## 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.

| | **2021** | 2020 |
|---|---|---|
| | **$** | $ |
| Balance, beginning of year | **12,233,036** | 9,639,456 |
| Contributions received for capital purposes | **1,918,000** | 3,901,000 |
| Amortization of deferred capital contributions | **(1,740,513)** | (1,307,420) |
| | **12,410,523** | 12,233,036 |

In 2015, the Organization launched a Campaign to raise funds for construction of new centres and expansions to current centers. 93% (2020 – 91%) of the balance of deferred capital contributions is related to this capital campaign.

## 7. Long-term debt

| | **2021** | 2020 |
|---|---|---|
| | **$** | $ |
| 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 $12,139,699, due at various dates, up to December 30, 2027 | **4,317,136** | 4,263,163 |
| Loan payable, due December 1, 2026, bearing interest at 3.95%, covered by a general security agreement | **200,000** | — |
| Loans payable, unsecured, due on demand with no fixed maturity date, bearing interest at 7.0% | **21,000** | 21,000 |
| Mortgage payable, due February 1, 2026, bearing interest at 2.9%, collateralized by the property in Allan, SK with a net book value of $646,045 | **32,644** | 39,803 |
| Loan payable, unsecured, due September 30, 2023, bearing interest at 0.0%, paid in full in 2021 | **—** | 325,000 |
| Loan payable, unsecured, due December 24, 2022, bearing interest at 0.0%, paid in full in 2021 | **—** | 250,000 |
| Loan payable, unsecured, due September 30, 2023, bearing interest at 5.0%, paid in full in 2021 | **—** | 43,000 |
| Mortgage payable, matured January 1, 2021, bearing interest at 4.7%, collateralized by property in Memramcook, NB with a net book value of $316,519 | **—** | 589 |
| Loan payable, due September 6, 2021, bearing interest at 3.5%, covered by a general security agreement, paid in full in 2021 | **—** | 25,621 |
| Total debt | **4,570,780** | 4,968,176 |
| Current portion | **2,242,435** | 1,911,900 |
| | **2,328,345** | 3,056,276 |

The total interest paid on the long-term debt totaled $209,462 (2020 - $211,993).

## 7. Long-term debt (continued)

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

| | |
|---|---|
| 2022 | 2,242,435 |
| 2023 | 630,230 |
| 2024 | 974,511 |
| 2025 | 368,306 |
| 2026 | 312,308 |
| Thereafter | 42,990 |
| | 4,570,780 |

## 8. Changes in non-cash working capital components

| | | |
|---|---|---|
| Accounts receivable - trade and other receivables | **31,178** | (56,044) |
| Prepaid expenses | **26,650** | 641 |
| Inventory | **(14,308)** | 14,089 |
| Accounts payable and accured liabilities | **52,460** | (145,450) |
| Government remittances payable | **(90,240)** | 14,147 |
| | **5,740** | (172,617) |

## 9. Commitments

The Organization leases office equipment under various operating leases that expire in 2022 to 2026. Future lease payments aggregate $1,609,923 and include the following amounts payable over the next five years:

| | $ |
|---|---|
| 2022 | 383,387 |
| 2023 | 374,039 |
| 2024 | 309,763 |
| 2025 | 301,218 |
| 2026 | 241,516 |
| | 1,609,923 |

## 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, 2021, the most significant financial liabilities are accounts payable and accrued liabilities and long-term debt.

## 11. Pledges

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

## 12. Government assistance

During the year, the Company received government assistance related to COVID-19.

The Canada Emergency Wage Subsidy ("CEWS") is available to certain eligible employers who have experienced a decline in eligible revenue compared to a previous period (baseline revenue). Employers may be eligible to receive a wage subsidy if they meet certain criteria as determined by the Federal Government of Canada.

The Canada Emergency Rent Subsidy ("CERS") is available to certain eligible employers who have experienced a decline in eligible revenue compared to a previous period (baseline revenue). Employers may be eligible to receive a subsidy to cover part of their commercial rent or property expenses.

Included in other revenue for the year ended December 31, 2021 is $384,996 ($1,430,947 in 2020) of CEWS and $57,345 ($nil in 2020) of CERS.

## 13. Contingent liabilities

Subsequent to year-end, the Organization became party to a legal matter. While it is not feasible to predict the outcome of this matter at this time, the Organization believes that the resolution of this matter will not have a material adverse effect on the operations of the Organization.

## 14. Significant Event

In March 2020, 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.