

**TEEN CHALLENGE OF ARIZONA, INC.**  
**Tucson, Arizona**

**FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

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## **Independent Auditor's Report**

Board of Directors  
Teen Challenge of Arizona, Inc.  
Tucson, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Teen Challenge of Arizona, Inc. (an Arizona nonprofit corporation), which are comprised of the statements of financial position as of December 31, 2016 and 2015 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Teen Challenge of Arizona, Inc. as of December 31, 2016 and 2015 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Darin Guthrie CPA, PLLC*

Tucson, Arizona

July 25, 2017

**TEEN CHALLENGE OF ARIZONA, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 230,776	\$ 199,162
Accounts receivable	11,535	16,867
Prepaid expenses	25,563	38,302
<b>Total Current Assets</b>	267,874	254,331
<b>OTHER ASSETS</b>		
Property and equipment, net	5,946,397	6,105,995
Assets held for sale	350,000	-
Deposits and other assets	18,235	34,655
<b>Total Other Assets</b>	6,314,632	6,140,650
<b>Total Assets</b>	\$ 6,582,506	\$ 6,394,981
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 621,225	\$ 389,348
Line of credit	285,129	213,000
Current portion of long term debt	52,799	51,809
<b>Total Current Liabilities</b>	959,153	654,157
<b>LONG TERM DEBT</b>		
Notes payable, net of current portion	2,009,203	2,091,257
<b>Total Liabilities</b>	2,968,356	2,745,414
<b>NET ASSETS</b>		
Unrestricted net assets	3,587,728	3,598,067
Temporarily restricted net assets	26,422	51,500
<b>Total Net Assets</b>	3,614,150	3,649,567
<b>Total Liabilities and Net Assets</b>	\$ 6,582,506	\$ 6,394,981

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended December 31, 2016 and 2015**

<b>UNRESTRICTED NET ASSETS</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Support:		
Public Support:		
Individuals	\$ 2,270,756	\$ 2,345,531
Organizations	393,715	354,374
Other	33,117	277,947
Other Support and Revenue:		
Program service revenues	706,580	317,314
Donated supplies, services, and property	245,917	135,036
Student expense reimbursements	10,139	9,484
Resale items, services and supplies, net of direct costs of \$33,473 and \$34,143, respectively	278,154	282,025
Events, banquets, concerts, and calls, net of direct costs of \$223,233 and \$305,672, respectively	<u>417,914</u>	<u>353,429</u>
<b>Total Unrestricted Support</b>	4,356,292	4,075,140
Net assets released from restrictions:		
Restrictions satisfied by use	<u>163,364</u>	<u>32,832</u>
<b>Total Unrestricted Support &amp; Reclassifications</b>	4,519,656	4,107,972
<b>Expenses:</b>		
Program Services	3,927,066	3,790,822
Supporting Services:		
Administration	186,088	210,687
Fundraising	<u>416,704</u>	<u>375,295</u>
<b>Operating Expenses</b>	4,529,858	4,376,804
(Gain) Loss on sale of assets	<u>137</u>	<u>(7,754)</u>
<b>Total Expenses</b>	<u>4,529,995</u>	<u>4,369,050</u>
<b>Change in Unrestricted Net Assets</b>	(10,339)	(261,078)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Support:		
Public support, individuals	138,286	84,332
Net assets released from restrictions:		
Restrictions satisfied by use	<u>(163,364)</u>	<u>(32,832)</u>
<b>Change in Temporarily Restricted Net Assets</b>	<u>(25,078)</u>	<u>51,500</u>
<b>Change in Total Net Assets</b>	(35,417)	(209,578)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>3,649,567</u>	<u>3,859,145</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 3,614,150</u>	<u>\$ 3,649,567</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (35,417)	\$ (209,578)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	308,087	309,148
Decreases / (increases) in operating assets:		
Accounts receivable	5,332	(16,867)
Pledges receivables	-	7,500
Prepaid expenses	12,739	(25,185)
Deposits	16,420	1,306
Assets held for sale	(350,000)	-
Increases / (decreases) in operating liabilities:		
Accounts payable and accrued expenses	231,877	32,864
Line of credit	72,129	47,000
<b>Net Cash Provided By Operating Activities</b>	<b>261,167</b>	<b>146,188</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds on sale of fixed assets	-	7,754
Purchases of fixed assets	(148,489)	(113,478)
<b>Net Cash (Used) By Investing Activities</b>	<b>(148,489)</b>	<b>(105,724)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings under notes payable	-	24,737
Payments on principal of long-term debt	(81,064)	(52,130)
<b>Net Cash (Used) By Financing Activities</b>	<b>(81,064)</b>	<b>(27,393)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	31,614	13,071
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	199,162	186,091
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 230,776</b>	<b>\$ 199,162</b>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 161,828	\$ 163,351
Non-cash transactions -- donated supplies, services and property	\$ 245,917	\$ 135,036

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2016**

	<b>Program</b>	<b>Supporting Services</b>		<b>Total</b>
	<b>Services</b>	<b>Administration</b>	<b>Fundraising</b>	
Salaries and wages	\$ 1,785,211	\$ 78,335	\$ 185,920	\$ 2,049,466
Employee related expenses	257,230	9,429	28,282	294,941
Community outreach	151,374	22	25,240	176,636
Depreciation	255,712	27,728	24,647	308,087
Insurance	211,085	4,484	3,986	219,555
Interest	132,179	18,403	11,246	161,828
Office expenses and printing	135,178	7,924	16,124	159,226
Outside services	86,318	16,824	93,550	196,692
Repairs and maintenance	79,950	1,037	922	81,909
Staff development and training	70,493	7,261	6,224	83,978
Student food, support, etc.	105,522			105,522
Telecommunications	85,673	1,018	7,560	94,251
Travel and transportation	161,004	8,008	8,458	177,470
Utilities	331,867	1,851	1,646	335,364
Other	78,270	3,764	2,899	84,933
	<u>\$ 3,927,066</u>	<u>\$ 186,088</u>	<u>\$ 416,704</u>	<u>\$ 4,529,858</u>

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.



**TEEN CHALLENGE OF ARIZONA, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2015**

	<b>Program</b>	<b>Supporting Services</b>		<b>Total</b>
	<b>Services</b>	<b>Administration</b>	<b>Fundraising</b>	
Salaries and wages	\$ 1,672,948	\$ 88,565	\$ 160,636	\$ 1,922,149
Employee related expenses	262,076	11,893	20,543	294,512
Community outreach	161,921	3,083	19,036	184,040
Depreciation	256,593	27,823	24,732	309,148
Insurance	192,458	4,703	4,181	201,342
Interest	134,552	15,889	12,910	163,351
Office expenses and printing	134,213	10,430	10,247	154,890
Outside services	80,629	17,838	91,637	190,104
Repairs and maintenance	88,945	1,011	899	90,855
Staff development and training	95,510	13,590	11,042	120,142
Student food, support, etc.	94,000	-	-	94,000
Telecommunications	82,595	2,604	8,519	93,718
Travel and transportation	160,728	6,626	5,384	172,738
Utilities	315,747	1,839	1,635	319,221
Other	57,907	4,793	3,894	66,594
	<u>\$ 3,790,822</u>	<u>\$ 210,687</u>	<u>\$ 375,295</u>	<u>\$ 4,376,804</u>

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF ACTIVITIES**

Teen Challenge of Arizona, Inc. (TCA) is a non-profit organization whose goal is to initiate and sustain a Christian recovery process for people who have drug, alcohol and other life-controlling problems. TCA is open to all people of all faiths, color and gender. Incorporated under the laws of the State of Arizona, TCA is affiliated with Teen Challenge U.S.A. and governed by the Assembly of God, Division of Home Missions. TCA began operations in 1965 and is a member of the Evangelical Council for Financial Accountability. TCA's corporate headquarters are in Oro Valley, Arizona and its programs are conducted at five centers located throughout Arizona.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation:** TCA reports information regarding its financial position and activities on the accrual basis according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted. Temporarily restricted net assets include contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted. Permanently restricted net assets includes contributed net assets which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, TCA considers all liquid investments available for use with an initial maturity of three months or less to be cash equivalents.

**Property and Equipment:** Purchased property and equipment with are recorded at cost and donated assets are recorded at their fair market value at the date of the donation. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Estimated useful lives range from five to forty years. Maintenance and repairs are charged to expense as incurred. Property and equipment under \$500 are expensed.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pledge Receivable, Support and Revenue:** It is TCA’s policy to recognize support and revenue as received or earned. Contributions are recognized when received. TCA requests “faith promises” but does not recognize the faith promise as support, until collected, because the faith promises are considered “intentions to give” and TCA would not pursue collections. Pledges receivable were \$-0- as of December 31, 2016 and 2015. TCA believes that all pledges will be paid, and, therefore, no allowance for doubtful accounts is reflected in the financial statements. Unless otherwise indicated, all cash contributions are considered received without donor-imposed restrictions. Contributions with donor-imposed restrictions are classified as temporarily restricted. When the restriction expires, that is, when the time or use restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Donated Assets, Supplies and Services:** Donated assets, supplies and services are reflected as revenue in the accompanying statements at their estimated values at the date received. While a number of volunteer services have been donated in providing TCA’s program services and certain fundraising activities, it is TCA’s policy to record donated services only when significant time is volunteered by donors possessing specialized skills in connection with its ministry.

**Functional Allocations of Expenses:** Costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the various programs and activities benefited.

**Reclassifications:** Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Income Taxes:** TCA is exempt from Federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements. As a religious organization, TCA is not required to file a return with the Internal Revenue Service.

**NOTE 2 – NET ASSETS**

**Temporarily Restricted Net Assets:** TCA had \$26,422 and \$51,500 of temporarily restricted net assets as of December 31, 2016 and 2015, respectively, which were restricted for the construction costs.

**Permanently Restricted Net Assets:** TCA had no permanently restricted net assets as of December 31, 2016 or 2015.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,494,782	\$ 1,494,782
Buildings and improvements	7,225,973	7,131,020
Equipment and furniture	931,819	881,090
Vehicles	<u>447,029</u>	<u>444,223</u>
Total fixed assets	10,099,603	9,951,115
Less accumulated depreciation	<u>(4,153,206)</u>	<u>(3,845,120)</u>
Fixed assets, net	<u>\$ 5,946,397</u>	<u>\$ 6,105,995</u>

**NOTE 4 – LINE OF CREDIT**

TCA uses a revolving line of credit with a lender providing for a total credit facility of \$500,000 which is secured by real estate. The note matures on August 15, 2021. The interest rate may be adjusted annually, and in no event shall the interest increase or decrease by more than 2% on any change, nor drop below the initial interest rate or exceed 6% above the initial rate. Under this line of credit TCAZ cannot borrow additional funds of \$25,000 or greater without prior written consent. As of December 31, 2016 and 2015 TCA had borrowed \$285,129 and \$213,000, respectively, against the line of credit. The refinanced line of credit has an initial interest rate of 5.99% per annum with a required minimum monthly payment equal to the amount of accrued interest. The interest rate was 5.99% and 7.00% at December 31, 2016 and 2015, respectively.

**NOTE 5 – RETIREMENT PLAN**

Substantially all permanent full time employees are eligible to contribute to a cost sharing defined contribution 403(b) plan. Employees may start contributing to the plan after 90 days of employment. The employer shall contribute a matching contribution up to 3%, beginning after one year of employment and phased per a vesting schedule prorated over a period of six years of employment. Retirement plan expense was \$16,086 and \$15,711 for the years ending December 31, 2016 and 2015, respectively.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 6 – LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>2016</u>	<u>2015</u>
Mortgage note payable, \$13,001 monthly payments of principal and initial interest at 6.25%, matures September 2033, secured by TCA's assets.	\$ 1,991,561	\$ 2,052,710
Auto loan, \$362 monthly payment of principal and interest at 11.99%, matures March 2017.	1,453	5,772
Auto loan, \$514 monthly payment of principal and interest at 7.49%, matures January 2020.	17,069	22,339
Auto loan, \$507 monthly payment of principal and interest at 8.35%, matures March 2020.	19,027	22,430
Auto loan, \$507 monthly payment of principal and interest at 8.35%, matures March 2020.	13,893	17,733
Auto loan, \$519 monthly payment of principal and interest at 7.49%, matures January 2020.	<u>18,998</u>	<u>22,082</u>
Total notes payable	2,062,002	2,143,066
Current portion	<u>(52,799)</u>	<u>(51,809)</u>
<b>Notes payable, net of current portion</b>	<b><u>\$ 2,009,203</u></b>	<b><u>\$ 2,091,257</u></b>

Loan origination fees of \$38,030, incurred in connection with the mortgage note payable and promissory note payable, are amortized over the life of the loans. Unamortized loan issuance costs are reported on the statement of financial position as a reduction of notes payable.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 6 – LONG-TERM DEBT (Continued)**

Amortization of loan origination fees was \$2,100 and \$1,306 for the years ended December 31, 2016 and 2015, respectively. The estimated amortization expense for the next five years is as follows:

2017		\$	3,689
2018			3,689
2019			3,689
2020			3,689
2021			2,895
Thereafter			15,341
			\$ 32,992

Maturities of long-term debt for each of the next five years ending December 31 and thereafter are as follows:

2017		\$	52,799
2018			56,305
2019			51,830
2020			42,808
2021			38,851
Thereafter			1,852,400
			2,094,994
Less unamortized loan origination fees			(32,992)
			\$ 2,062,002

**NOTE 7 – COMMITMENTS**

TCA entered into an operating lease for retail space for Springboard’s clothing resale shop, the Butterfly Boutique. The lease is triple net and requires minimum monthly payments of \$1,148 with a 3% rent increase annually. The lease expires May 31, 2016. This lease was amended on June 16, 2016. The amendment to the lease expires on July 31, 2021. The minimum monthly payments per the amendment varies from \$1,182.50 to \$1,422.50 per month. The rental expense of the Butterfly Boutique is included as a direct cost of resale items in the accompanying statement of activities.

On September 14, 2015, TCA entered into an operating lease for copier equipment with a monthly minimum payment of \$1,660.10 for 60 months.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 7 – COMMITMENTS (Continued)**

The following is a schedule of future minimum lease payments required under the leases:

Year ending December 31:	2017	\$	34,766
	2018		35,651
	2019		36,121
	2020		31,631
	2021		<u>9,892</u>
		\$	<u>148,061</u>

**NOTE 8 – SUBSEQUENT EVENTS**

In accordance with ASC 855, *Subsequent Events*, TCA evaluates events or transactions that occur subsequent to year-end for potential recognition or disclosure in the financial statements through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on July 25, 2017.

These notes are an integral part of the financial statements.