

TEEN CHALLENGE OF ARIZONA, INC.
Tucson, Arizona

FINANCIAL STATEMENTS
December 31, 2015 and 2014

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Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying financial statements of Teen Challenge of Arizona, Inc. (an Arizona non-profit organization), which are comprised of the statements of financial position as of December 31, 2015 and 2014 and the related statements of activities, cash flows, and functional expenses 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

My responsibility is to express an opinion on the financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my 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, 2015 and 2014 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 26, 2016

TEEN CHALLENGE OF ARIZONA, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2015 and 2014

ASSETS	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 199,162	\$ 186,091
Accounts receivable	16,867	-
Pledges receivable	-	7,500
Prepaid expenses	38,302	13,117
Total Current Assets	254,331	206,708
NON-CURRENT ASSETS		
Property and equipment, net	6,105,995	6,309,419
Deposits and other assets	34,655	35,961
Total Non-Current Assets	6,140,650	6,345,380
Total Assets	\$ 6,394,981	\$ 6,552,088
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 389,348	\$ 356,484
Line of credit	213,000	166,000
Current portion of long term debt	51,809	49,592
Total Current Liabilities	654,157	572,076
LONG TERM DEBT		
Notes payable, net of current portion	2,091,257	2,120,867
Total Liabilities	2,745,414	2,692,943
NET ASSETS		
Unrestricted net assets	3,598,067	3,859,145
Temporarily restricted net assets	51,500	-
Total Net Assets	3,649,567	3,859,145
Total Liabilities and Net Assets	\$ 6,394,981	\$ 6,552,088

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 AND CHANGES IN NET ASSETS
Years Ended December 31, 2015 and 2014

UNRESTRICTED NET ASSETS	<u>2015</u>	<u>2014</u>
Support:		
Public Support:		
Individuals	\$ 2,345,531	\$ 2,307,469
Organizations	354,374	431,986
Other	493,618	399,004
Other Support and Revenue:		
Donated supplies, services, and property	135,036	223,389
Student expense reimbursements	9,484	11,767
Resale items, services and supplies, net of direct costs of \$34,143 and \$24,360, respectively	282,025	223,550
Events, banquets, concerts, and calls, net of direct costs of \$305,672 and \$184,908, respectively	455,072	526,896
Total Unrestricted Support	<u>4,075,140</u>	<u>4,124,061</u>
Net assets released from restrictions:		
Restrictions satisfied by use	32,832	46,100
Total Unrestricted Support & Reclassifications	<u>4,107,972</u>	<u>4,170,161</u>
Expenses:		
Program Services	3,790,822	3,534,467
Supporting Services:		
Administration	210,687	173,505
Fundraising	375,295	383,932
Operating Expenses	<u>4,376,804</u>	<u>4,091,904</u>
(Gain) Loss on sale of assets	<u>(7,754)</u>	<u>52,819</u>
Total Expenses	<u>4,369,050</u>	<u>4,144,723</u>
Change in Unrestricted Net Assets	(261,078)	25,438
TEMPORARILY RESTRICTED NET ASSETS		
Support:		
Public support, individuals	84,332	46,100
Net assets released from restrictions:		
Restrictions satisfied by use	(32,832)	(46,100)
Change in Temporarily Restricted Net Assets	<u>51,500</u>	<u>-</u>
Change in Total Net Assets	(209,578)	25,438
NET ASSETS, BEGINNING OF YEAR	<u>3,859,145</u>	<u>3,833,707</u>
NET ASSETS, END OF YEAR	<u>\$ 3,649,567</u>	<u>\$ 3,859,145</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, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (209,578)	\$ 25,438
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	309,148	299,118
Decreases / (increases) in operating assets:		
Accounts receivable	(16,867)	-
Pledges receivables	7,500	(7,500)
Prepaid expenses	(25,185)	7,492
Deposits	1,306	1,306
Increases / (decreases) in operating liabilities:		
Accounts payable and accrued expenses	32,864	(29,031)
Line of credit	47,000	(211,031)
Net Cash Provided By Operating Activities	146,188	85,792
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on sale of fixed assets	7,754	175,803
Purchases of fixed assets	(113,478)	(201,152)
Net Cash (Used) By Investing Activities	(105,724)	(25,349)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under notes payable	24,737	74,405
Payments on principal of long-term debt	(52,130)	(35,239)
Net Cash Provided By Financing Activities	(27,393)	39,166
 Net Increase in Cash and Cash Equivalents	13,071	99,609
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	186,091	86,482
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 199,162	\$ 186,091
 SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 163,351	\$ 137,414
Non-cash transactions -- donated supplies, services and property	\$ 135,036	\$ 223,389

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

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

	Program	Supporting Services		Total
	Services	Administration	Fundraising	
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.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2014

	Program	Supporting Services		Total
	Services	Administration	Fundraising	
Salaries and wages	\$ 1,537,673	\$ 80,588	\$ 178,703	\$ 1,796,964
Employee related expenses	220,248	10,687	20,179	251,114
Community outreach	53,137	1,988	16,834	71,959
Depreciation	257,786	12,865	28,467	299,118
Insurance	171,232	4,723	4,611	180,566
Interest	124,433	4,041	8,941	137,415
Office expenses and printing	133,167	8,701	9,990	151,858
Outside services	54,975	20,916	83,978	159,869
Repairs and maintenance	91,729	1,076	1,051	93,856
Staff development and training	74,824	11,586	10,401	96,811
Student food, support, etc.	170,983	-	-	170,983
Telecommunications	68,577	2,618	8,842	80,037
Travel and transportation	175,265	5,191	4,462	184,918
Utilities	317,275	1,616	1,578	320,469
Other	68,921	6,909	5,895	81,725
Discontinued operations	14,242	-	-	14,242
	<u>\$ 3,534,467</u>	<u>\$ 173,505</u>	<u>\$ 383,932</u>	<u>\$ 4,091,904</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, 2015 and 2014

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: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-For-Profit Organizations*. Under ASC 958-205, TCA is required to report information regarding its financial position and activities 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, 2015 and 2014

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- and \$7,500 as of December 31, 2015 and 2014, respectively. 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.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 2 – NET ASSETS

Temporarily Restricted Net Assets

TCA had \$51,500 of temporarily restricted net assets as of December 31, 2015, which were restricted for the Phoenix kitchen remodel. TCA had no temporarily restricted net assets as of December 31, 2014.

Permanently Restricted Net Assets

TCA had no permanently restricted net assets as of December 31, 2015 or 2014.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 1,494,782	\$ 1,494,782
Buildings and improvements	7,131,020	7,099,249
Equipment and furniture	881,090	849,161
Vehicles	<u>444,223</u>	<u>407,759</u>
Total fixed assets	9,951,115	9,850,951
Less accumulated depreciation	<u>(3,845,120)</u>	<u>(3,541,532)</u>
Fixed assets, net of Accumulated depreciation	<u>\$ 6,105,995</u>	<u>\$6,309,419</u>

NOTE 4 – LINE OF CREDIT

TCA refinanced a revolving line of credit with a lender providing for a total credit facility of \$500,000 secured by real estate. The note matures on September 15, 2018. The interest rate may be adjusted beginning on September 15, 2014 and may fluctuate annually thereafter, 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. In addition, the principal balance must be paid in full annually and the balance must remain at zero for a period of 30 days after being paid off. Under this line of credit TCAZ cannot borrow additional funds of \$25,000 or greater without prior written consent. As of December 31, 2015 and 2014 TCA had borrowed \$213,000 and \$166,000, respectively, against the line of credit. The refinanced line of credit has an initial interest rate of 6.25% per annum with a required minimum monthly payment equal to the amount of accrued interest. The interest rate was 7.00% and 6.25% at December 31, 2015 and 2014, respectively.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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 \$15,711 and \$16,498 as of December 31, 2015 and 2014, respectively.

NOTE 6 – LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>2015</u>	<u>2014</u>
Mortgage note payable, \$13,001 monthly payments of principal and initial interest at 6.25%, matures September 2033, secured by TCA's assets.	\$ 2,052,710	\$ 2,079,515
Auto loan, \$362 monthly payment of principal and interest at 11.99%, matures March 2017.	5,772	8,889
Copier lease enhancement. Note payable, \$535 monthly payment of principal and interest at 5%, matures April 2016.	-	8,271
Auto loan, \$514 monthly payment of principal and interest at 7.49%, matures January 2020.	22,339	25,567
Auto loan, \$507 monthly payment of principal and interest at 8.35%, matures March 2020.	22,430	-
Auto loan, \$507 monthly payment of principal and interest at 8.35%, matures March 2020.	17,733	22,385
Auto loan, \$519 monthly payment of principal and interest at 7.49%, matures January 2020.	<u>22,082</u>	<u>25,832</u>
Total notes payable	2,143,066	2,170,459
Current portion	<u>(51,809)</u>	<u>(49,592)</u>
Notes payable, net of current portion	<u>\$ 2,091,257</u>	<u>\$ 2,120,866</u>

Loan origination fees of \$26,115, 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 component of deposits and other assets.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 6 – LONG-TERM DEBT (Continued)

Amortization expense was \$1,306 for both the years ended December 31, 2015 and 2014. The estimated amortization expense for the next five years is as follows:

2016	\$ 1,306
2017	1,306
2018	1,306
2019	1,306
2020	1,306
Thereafter	<u>16,647</u>
	<u>\$ 23,177</u>

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

2016	\$ 51,809
2017	52,967
2018	53,976
2019	51,827
2020	39,658
Thereafter	<u>1,892,829</u>
	<u>\$ 2,143,066</u>

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. The rental expense of the Butterfly Boutique is included as a direct cost of resale items in the accompanying statement of activities.

In 2011, TCA entered into two equipment leases for office equipment. Both leases require minimum monthly payments of \$770 through April 2016. There is also a service agreement for the office equipment that has a minimum monthly payment of \$444 for the same period.

Future minimum payments under these leases are as follows for the years ended December 31:

2016	<u>\$ 12,809</u>
Total	<u>\$ 12,809</u>

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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 26, 2016