

TEEN CHALLENGE OF ARIZONA, INC.
Tucson, Arizona

FINANCIAL STATEMENTS
December 31, 2017 and 2016

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Statements of Functional Expenses	6-7
Notes to Financial Statements	8-13



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, 2017 and 2016 and the related statements of activities and changes in net assets, 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, 2017 and 2016 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 31, 2018

TEEN CHALLENGE OF ARIZONA, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 404,388	\$ 230,776
Accounts receivable	52,641	11,535
Prepaid expenses	23,306	25,563
Total Current Assets	480,335	267,874
OTHER ASSETS		
Property and equipment, net	5,814,204	5,946,397
Assets held for sale	350,000	350,000
Deposits and other assets	11,478	18,235
Total Other Assets	6,175,682	6,314,632
Total Assets	\$ 6,656,017	\$ 6,582,506
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 660,936	\$ 621,225
Line of credit	284,129	285,129
Current portion of long term debt	58,674	52,799
Total Current Liabilities	1,003,739	959,153
LONG TERM DEBT		
Notes payable, net of current portion	1,986,302	2,009,203
Total Liabilities	2,990,041	2,968,356
NET ASSETS		
Unrestricted net assets	3,338,698	3,587,728
Temporarily restricted net assets	327,278	26,422
Total Net Assets	3,665,976	3,614,150
Total Liabilities and Net Assets	\$ 6,656,017	\$ 6,582,506

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, 2017 and 2016

UNRESTRICTED NET ASSETS	<u>2017</u>	<u>2016</u>
Support:		
Public Support:		
Individuals	\$ 2,284,251	\$ 2,270,756
Organizations	437,466	393,715
Other	57,164	33,117
Other Support and Revenue:		
Program service revenues	693,271	706,580
Donated supplies, services, and property	127,044	245,917
Student expense reimbursements	5,240	10,139
Other	31,655	-
Resale items, services and supplies, net of direct costs of \$36,657 and \$33,473, respectively	257,909	278,154
Events, banquets, concerts, and calls, net of direct costs of \$179,013 and \$223,233, respectively	<u>529,586</u>	<u>417,914</u>
Total Unrestricted Support	4,423,586	4,356,292
Net assets released from restrictions:		
Restrictions satisfied by use	<u>142,258</u>	<u>163,364</u>
Total Unrestricted Support & Reclassifications	4,565,844	4,519,656
Expenses:		
Program Services	4,141,059	3,927,066
Supporting Services:		
Administration	212,289	186,088
Fundraising	<u>461,526</u>	<u>416,704</u>
Operating Expenses	4,814,874	4,529,858
(Gain) Loss on sale of assets	<u>-</u>	<u>137</u>
Total Expenses	<u>4,814,874</u>	<u>4,529,995</u>
Change in Unrestricted Net Assets	(249,030)	(10,339)
TEMPORARILY RESTRICTED NET ASSETS		
Support:		
Public support, individuals	443,114	138,286
Net assets released from restrictions:		
Restrictions satisfied by use	<u>(142,258)</u>	<u>(163,364)</u>
Change in Temporarily Restricted Net Assets	<u>300,856</u>	<u>(25,078)</u>
Change in Total Net Assets	51,826	(35,417)
NET ASSETS, BEGINNING OF YEAR	<u>3,614,150</u>	<u>3,649,567</u>
NET ASSETS, END OF YEAR	<u>\$ 3,665,976</u>	<u>\$ 3,614,150</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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 51,826	\$ (35,417)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	292,363	308,087
Decreases / (increases) in operating assets:		
Accounts receivable	(41,106)	5,332
Prepaid expenses	2,257	12,739
Deposits	6,757	16,420
Assets held for sale	-	(350,000)
Increases / (decreases) in operating liabilities:		
Accounts payable and accrued expenses	39,711	231,877
Line of credit	(1,000)	72,129
Net Cash Provided By Operating Activities	350,808	261,167
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(156,481)	(148,489)
Net Cash (Used) By Investing Activities	(156,481)	(148,489)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under notes payable	31,017	-
Payments on principal of long-term debt	(51,732)	(81,064)
Net Cash (Used) By Financing Activities	(20,715)	(81,064)
Net Increase in Cash and Cash Equivalents	173,612	31,614
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	230,776	199,162
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 404,388	\$ 230,776
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 157,721	\$ 161,828
Non-cash transactions -- donated supplies, services and property	\$ 127,044	\$ 245,917

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, 2017

	Program	Supporting Services		Total
	Services	Administration	Fundraising	
Salaries and wages	\$ 1,893,229	\$ 81,306	\$ 223,023	\$ 2,197,558
Employee related expenses	304,806	10,082	34,801	349,689
Community outreach	145,704	2,418	24,123	172,245
Depreciation	239,600	25,981	23,094	288,675
Insurance	208,755	4,357	3,873	216,985
Interest	134,102	16,950	10,358	161,410
Office expenses and printing	148,195	9,682	12,340	170,217
Outside services	79,532	29,165	97,125	205,822
Repairs and maintenance	110,047	2,309	2,052	114,408
Staff development and training	83,657	13,365	9,651	106,673
Student food, support, etc.	133,986	-	-	133,986
Telecommunications	81,163	726	7,624	89,513
Travel and transportation	170,273	9,346	8,815	188,434
Utilities	320,976	2,206	1,961	325,143
Other	87,034	4,396	2,686	94,116
	<u>\$ 4,141,059</u>	<u>\$ 212,289</u>	<u>\$ 461,526</u>	<u>\$ 4,814,874</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, 2016

	Program	Supporting Services		Total
	Services	Administration	Fundraising	
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.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016. 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 \$327,278 and \$26,422 of temporarily restricted net assets as of December 31, 2017 and 2016, respectively, which were restricted for the construction costs.

Permanently Restricted Net Assets: TCA had no permanently restricted net assets as of December 31, 2017 or 2016.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,494,782	\$ 1,494,782
Buildings and improvements	7,432,388	7,225,973
Equipment and furniture	1,002,353	931,819
Vehicles	<u>326,561</u>	<u>447,029</u>
Total fixed assets	10,256,084	10,099,603
Less accumulated depreciation	<u>(4,441,880)</u>	<u>(4,153,206)</u>
Fixed assets, net	<u>\$ 5,814,204</u>	<u>\$ 5,946,397</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, 2017 and 2016 TCA had borrowed \$284,129 and \$285,129, 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% at both December 31, 2017 and 2016.

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 \$10,146 and \$16,086 for the years ending December 31, 2017 and 2016, respectively.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 6 – LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>2017</u>	<u>2016</u>
Mortgage note payable, \$13,001 monthly payments of principal and initial interest at 6.25%, matures September 2033, secured by TCA’s assets.	\$ 1,994,215	\$ 2,024,553
Unamortized loan origination fees arising from mortgage note payable above	(29,303)	(32,991)
Auto loan, \$362 monthly payment of principal and interest at 11.99%, matures March 2017.	-0-	1,453
Auto loan, \$514 monthly payment of principal and interest at 7.49%, matures January 2020.	13,020	17,069
Auto loan, \$507 monthly payment of principal and interest at 8.35%, matures March 2020.	15,176	19,027
Auto loan, \$507 monthly payment of principal and interest at 8.35%, matures March 2020.	8,972	13,893
Auto loan, \$519 monthly payment of principal and interest at 7.49%, matures January 2020.	14,350	18,998
Auto loan, \$646 monthly payment of principal and interest at 6.94%, matures May 2022.	<u>28,546</u>	<u>-0-</u>
Total notes payable	2,044,976	2,062,002
Current portion	<u>(58,674)</u>	<u>(52,799)</u>
Notes payable, net of current portion	<u>\$ 1,986,302</u>	<u>\$ 2,009,203</u>

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, 2017 and 2016

NOTE 6 – LONG-TERM DEBT (Continued)

Amortization of loan origination fees was \$3,659 and \$2,100 for the years ended December 31, 2017 and 2016, respectively. The estimated amortization expense for the next five years is as follows:

2018	\$ 3,689
2019	3,689
2020	3,689
2021	2,895
2022	1,306
Thereafter	<u>14,035</u>
	<u>\$ 29,303</u>

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

2018	\$ 58,674
2019	61,061
2020	52,759
2021	45,712
2022	45,084
Thereafter	<u>1,810,989</u>
	2,074,279
Less unamortized loan origination fees	<u>(29,303)</u>
	<u>\$ 2,044,976</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 expired 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, 2017 and 2016

NOTE 7 – COMMITMENTS (Continued)

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

Year ending December 31:	2018	\$	35,652
	2019		36,120
	2020		31,632
	2021		<u>9,892</u>
		\$	<u>113,299</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 31, 2018.

These notes are an integral part of the financial statements.