

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

**FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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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. (a nonprofit corporation), which are comprised of the statements of financial position as of December 31, 2019 and 2018 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2019 and 2018 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 30, 2020

**TEEN CHALLENGE OF ARIZONA, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2019 and 2018**

<b>ASSETS</b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 326,370	\$ 429,581
Accounts receivable	29,680	16,569
Prepaid expenses	<u>15,339</u>	<u>14,668</u>
<b>Total Current Assets</b>	371,389	460,818
<b>OTHER ASSETS</b>		
Property and equipment, net	5,798,862	5,804,532
Deposits and other assets	<u>13,786</u>	<u>13,786</u>
<b>Total Other Assets</b>	<u>5,812,648</u>	<u>5,818,318</u>
<b>Total Assets</b>	<u>\$ 6,184,037</u>	<u>\$ 6,279,136</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 582,667	\$ 606,774
Lines of credit	320,744	356,660
Current portion of long term debt	<u>71,830</u>	<u>56,994</u>
<b>Total Current Liabilities</b>	975,241	1,020,428
<b>LONG TERM DEBT</b>		
Notes payable, net of current portion	<u>1,942,634</u>	<u>1,900,045</u>
<b>Total Liabilities</b>	<u>2,917,875</u>	<u>2,920,473</u>
<b>NET ASSETS</b>		
Without donor restrictions		
Invested in property and equipment	5,798,862	5,804,532
Undesignated	<u>(2,735,083)</u>	<u>(2,631,631)</u>
Total net assets without donor restrictions	3,063,779	3,172,901
With donor restrictions	<u>202,383</u>	<u>185,762</u>
<b>Total Net Assets</b>	<u>3,266,162</u>	<u>3,358,663</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 6,184,037</u>	<u>\$ 6,279,136</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 ACTIVITIES AND CHANGES IN NET ASSETS**  
**Years Ended December 31, 2019 and 2018**

<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b><u>2019</u></b>	<b><u>2018</u></b>
Revenues, Support, and Gains		
Contributions	\$ 2,875,658	\$ 2,688,565
Donated supplies, services, and property	190,993	196,923
Program service revenues	751,923	783,886
Student expense reimbursements	12,215	3,524
Other income	39,939	46,073
Gains on sale of assets	-	33,333
Resale store revenue	600,907	463,823
Less cost of goods sold	<u>(61,638)</u>	<u>(53,757)</u>
Net resale store revenues	539,269	410,066
Special event revenues		
Ticket sales	77,294	82,361
Sponsors and other donations	483,482	417,823
Less cost of direct benefits to donors	<u>(181,288)</u>	<u>(200,397)</u>
Net special event revenues	379,488	299,787
Net assets released from restrictions	<u>150,938</u>	<u>253,197</u>
<b>Total revenue, support, and gains</b>	<b>4,940,423</b>	<b>4,715,354</b>
<b>Expenses and Losses</b>		
Program services expenses	4,330,706	4,228,606
Supporting services expenses		
Administration	206,533	189,635
Fundraising	<u>511,700</u>	<u>462,909</u>
Total supporting services expenses	718,234	652,545
Loss on disposal of assets	<u>606</u>	<u>-</u>
<b>Total expenses and losses</b>	<b><u>5,049,546</u></b>	<b><u>4,881,151</u></b>
<b>Change in Net Assets without Donor Restrictions</b>	<b>(109,123)</b>	<b>(165,797)</b>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	167,559	111,681
Net assets released from restrictions	<u>(150,938)</u>	<u>(253,197)</u>
<b>Change in Net Assets with Donor Restrictions</b>	<b><u>16,621</u></b>	<b><u>(141,516)</u></b>
<b>Change in Net Assets</b>	<b>(92,502)</b>	<b>(307,313)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b><u>3,358,663</u></b>	<b><u>3,665,976</u></b>
<b>NET ASSETS, END OF YEAR</b>	<b><u>\$ 3,266,162</u></b>	<b><u>\$ 3,358,663</u></b>

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (92,502)	\$ (307,313)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	309,769	297,996
Donated assets	(37,882)	(29,217)
Decreases / (increases) in operating assets:		
Accounts receivable	(13,111)	36,072
Prepaid expenses	(671)	8,638
Deposits	-	(2,308)
Assets held for sale	-	350,000
Increases / (decreases) in operating liabilities:		
Accounts payable and accrued expenses	(24,107)	(54,162)
Lines of credit	(35,916)	72,531
<b>Net Cash Provided By Operating Activities</b>	<u><b>105,580</b></u>	<u><b>372,237</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	<u>(260,874)</u>	<u>(254,177)</u>
<b>Net Cash (Used) By Investing Activities</b>	<u><b>(260,874)</b></u>	<u><b>(254,177)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings under notes payable	115,179	-
Payments on principal of long-term debt	(63,096)	(58,136)
Loan origination fees	-	(34,731)
<b>Net Cash (Used) By Financing Activities</b>	<u><b>52,083</b></u>	<u><b>(92,867)</b></u>
<b>Net Change in Cash and Cash Equivalents</b>	(103,211)	25,193
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>429,581</u>	<u>404,388</u>
<b>END OF YEAR</b>	<u><b>\$ 326,370</b></u>	<u><b>\$ 429,581</b></u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	<u>\$ 162,364</u>	<u>\$ 155,326</u>
Non-cash transactions -- donated supplies, services and property	<u>\$ 182,693</u>	<u>\$ 196,923</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, 2019**

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Cost of Goods Sold</b>	<b>Total</b>
		<b>Administration</b>	<b>Fundraising</b>		
Salaries and wages	\$ 2,078,570	\$ 80,803	\$ 287,656	\$ -	\$ 2,447,029
Employee related expenses	341,826	11,700	41,840	-	395,367
Community outreach	89,027	1,564	13,398	-	103,990
Cost of direct benefits to donors	-	-	-	181,288	181,288
Depreciation	252,675	27,398	24,354	-	304,427
Insurance	210,191	9,717	5,938	-	225,846
Interest	141,195	21,814	12,011	-	175,019
Office expenses and printing	161,965	11,170	11,598	-	184,734
Outside services	63,051	18,448	83,400	-	164,899
Repairs and maintenance	92,848	2,338	2,078	-	97,264
Resale costs of goods sold	61,638	-	-	-	61,638
Staff development and training	43,987	5,446	4,898	-	54,330
Student food, support, etc.	192,443	-	-	-	192,443
Telecommunications	76,503	549	7,265	-	84,316
Travel and transportation	189,895	10,216	13,395	-	213,506
Utilities	330,144	2,332	2,073	-	334,549
Other	66,387	3,039	1,796	-	71,221
<b>Total expenses by function</b>	<b>4,392,344</b>	<b>206,533</b>	<b>511,700</b>	<b>181,288</b>	<b>5,291,866</b>
Less expenses included with revenues on the statement of activities					
Resale costs of goods sold	(61,638)	-	-	-	(61,638)
Cost of direct benefits to donors	-	-	-	(181,288)	(181,288)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 4,330,706</b>	<b>\$ 206,533</b>	<b>\$ 511,700</b>	<b>\$ -</b>	<b>\$ 5,048,940</b>

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, 2018**

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Cost of Goods Sold</b>	<b>Total</b>
		<b>Administration</b>	<b>Fundraising</b>		
Salaries and wages	\$ 1,891,585	\$ 75,617	\$ 230,599	\$ -	\$ 2,197,802
Employee related expenses	302,989	10,392	32,564	-	345,944
Community outreach	137,463	2,871	20,358	-	160,693
Cost of direct benefits to donors	-	-	-	200,397	200,397
Depreciation	243,245	26,376	23,445	-	293,066
Insurance	232,109	4,848	4,309	-	241,266
Interest	129,208	19,669	10,115	-	158,992
Office expenses and printing	169,724	10,053	10,071	-	189,848
Outside services	82,335	18,561	95,057	-	195,953
Repairs and maintenance	102,607	1,460	1,298	-	105,366
Resale costs of goods sold	53,757	-	-	-	53,757
Staff development and training	50,150	4,205	5,550	-	59,906
Student food, support, etc.	206,355	-	-	-	206,355
Telecommunications	78,550	664	7,206	-	86,420
Travel and transportation	170,295	8,014	7,612	-	185,921
Utilities	351,566	2,870	2,551	-	356,987
Other	80,425	4,035	12,172	-	96,631
<b>Total expenses by function</b>	<b>4,282,363</b>	<b>189,635</b>	<b>462,909</b>	<b>200,397</b>	<b>5,135,305</b>
Less expenses included with revenues on the statement of activities					
Resale costs of goods sold	(53,757)	-	-	-	(53,757)
Cost of direct benefits to donors	-	-	-	(200,397)	(200,397)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 4,228,606</b>	<b>\$ 189,635</b>	<b>\$ 462,909</b>	<b>\$ -</b>	<b>\$ 4,881,151</b>

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, 2019 and 2018**

**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 genders. 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 two classes of net assets: net assets with donor restrictions and net assets without 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.

**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, 2019 and 2018. Unless otherwise indicated, all cash contributions are considered received without donor-imposed restrictions. Contributions with donor-imposed restrictions are classified as increases in net assets with donor restrictions. When the restriction expires, that is, when the time or use restriction is met, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as restrictions satisfied by use.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

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

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

**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 WITH DONOR RESTRICTIONS**

TCA had \$202,383 and \$185,762 of net assets with donor restrictions as of December 31, 2019 and 2018, respectively, which were restricted for capital investment.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,494,782	\$ 1,477,957
Buildings and improvements	7,347,225	7,338,402
Equipment and furniture	1,121,536	1,061,832
Vehicles	663,086	496,375
Construction in progress	<u>211,606</u>	<u>164,912</u>
Total fixed assets	10,838,236	10,539,478
Less accumulated depreciation	<u>(5,039,374)</u>	<u>(4,734,946)</u>
Fixed assets, net	<u>\$ 5,798,862</u>	<u>\$ 5,804,532</u>

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE 4 – LINES 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. The balance was \$285,713 and \$321,929 at December 31, 2019 and 2018, respectively. The 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, 2019 and 2018.

TCA also has a line of credit for a total credit facility of \$2,535,000 which is secured by real estate. The purpose of this line of credit is to provide funding for construction projects. The note matures on April 1, 2039. The interest rate for the line of credit is 6.44% per annum during construction. Upon conversion to permanent financing, the interest rate will be 5.99% per annum. Between May 1, 2018 and December 1, 2020 monthly payments of interest only are required. Beginning January 1, 2021, monthly payments of principal and interest in the amount of \$15,182 are required. TCA had borrowed \$35,031 and \$34,731 against this line of credit as of December 31, 2019 and 2018, 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 \$26,403 and \$24,188 for the years ending December 31, 2019 and 2018, respectively.

**NOTE 6 – COMMITMENTS**

TCA leases facilities and equipment with terms from 3 to 5 years. The following is a schedule of future minimum lease payments required under the leases for the years ending December 31:

2020	\$ 63,233
2021	<u>31,495</u>
	<u>\$ 94,728</u>

Total rents were \$71,966 and \$49,649 during the years ended December 31, 2019 and 2018, respectively.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE 7 – LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>2019</u>	<u>2018</u>
Mortgage note payable, \$13,001 monthly payments of principal and initial interest at 6.25%, matures September 2033, secured by TCA’s assets.	\$ 1,927,385	\$ 1,961,925
Auto loan, \$514 monthly payment of principal and interest at 7.49%, matures January 2020.	3,517	11,222
Auto loan, \$507 monthly payment of principal and interest at 8.35%, matures March 2020.	5,843	8,716
Auto loan, \$519 monthly payment of principal and interest at 7.49%, matures January 2020.	4,889	10,039
Auto loan, \$646 monthly payment of principal and interest at 6.94%, matures May 2022.	18,894	24,241
Auto loan, \$1,211 monthly payment of principal and interest at 7.269%, matures August 2024.	57,348	-
Auto loan, \$679 monthly payment of principal and interest at 10.94%, matures May 2024.	28,435	-
Auto loan, \$501 monthly payment of principal and interest at 9.69%, matures April 2024.	21,914	-
Unamortized loan origination fees	<u>(53,761)</u>	<u>(59,104)</u>
Total notes payable	2,014,464	1,957,039
Current portion	<u>(71,830)</u>	<u>(56,994)</u>
<b>Notes payable, net of current portion</b>	<b><u>\$ 1,942,634</u></b>	<b><u>\$ 1,900,045</u></b>

All auto loans are secured by the underlying vehicle asset.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE 7 – LONG-TERM DEBT (Continued)**

Loan origination fees incurred in connection with the obtaining financing 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. Amortization is included in interest expense on the statement of activities.

Amortization of loan origination fees was \$5,342 and \$4,930 during the years ended December 31, 2019 and 2018, respectively. The estimated amortization expense for the next five years is as follows:

2020	\$ 5,343
2021	4,549
2022	2,960
2023	2,960
2024	2,960
Thereafter	<u>34,989</u>
	<u>\$ 53,761</u>

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

2020	\$ 71,830
2021	63,004
2022	68,292
2023	67,234
2024	59,731
Thereafter	<u>1,684,374</u>
	<u>\$ 2,014,464</u>

**NOTE 8 – LIQUIDITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, are comprised of the following:

Cash and cash equivalents	\$ 326,370
Receivables	42,287
Operating line of credit available	<u>214,287</u>
	<u>\$ 582,944</u>

As part of the liquidity management plan, the Board of Directors has approved that a Line of Credit account be maintained with a limit of \$500,000, the available portion of which is shown above.

These notes are an integral part of the financial statements.

**TEEN CHALLENGE OF ARIZONA, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE 9 – SUBSEQUENT EVENTS**

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closures of various aspects of the Organization, including canceled fundraising activities, temporary cessation of intakes of new program participants, and illness of staff and participants. The Organization has also obtained a loan in the amount of \$531,588 from the Small Business Administration under the Payroll Protection Program in April of 2020, which it anticipates will be forgiven in its entirety during 2020. Management evaluated subsequent events through July 30, 2020, the date the financial statements were available to be issued.

These notes are an integral part of the financial statements.