# Teen Challenge of Arizona, Inc.

Year Ended December 31, 2022

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# Teen Challenge of Arizona, Inc.

**Year Ended December 31, 2022**

## CONTENTS



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## Independent Auditors' Report

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

**Opinion**

We have audited the accompanying financial statements of Teen Challenge of Arizona, Inc., which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Teen Challenge of Arizona, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Implementation of New Accounting Standard**

As discussed in Note 1 to the financial statements, on January 1, 2022, the Organization adopted FASB Topic 842, *Leases.* Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Teen Challenge of Arizona, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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 Teen Challenge of Arizona, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Teen Challenge of Arizona, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

BeachFleischman PLLC

Tucson, Arizona
July 27, 2023

# Teen Challenge of Arizona, Inc.

## Statement of Financial Position

December 31, 2022

### Assets

| | |
|---|---|
| Current assets: | |
| Cash and cash equivalents | $ 925,036 |
| Accounts receivable | 42,028 |
| Inventory | 77,681 |
| Other current assets | 77,717 |
| Employee retention credit receivable | 777,200 |
| Total current assets | 1,899,662 |
| Property and equipment, net | 10,821,944 |
| Operating lease assets | 730,447 |
| Deposits | 14,324 |
| Other assets | 119,041 |
| Total assets | $ 13,585,418 |

### Liabilities and Net Assets

| | |
|---|---|
| Current liabilities: | |
| Current portion of long-term debt | $ 94,896 |
| Current portion of operating lease obligations | 365,114 |
| Accounts payable | 599,469 |
| Accrued expenses | 342,589 |
| Total current liabilities | 1,402,068 |
| Operating lease obligations, net of current portion | 372,132 |
| Long-term debt, net of current portion | 4,849,741 |
| Total liabilities | 6,623,941 |
| Commitment and contingency | |
| Net assets: | |
| Without donor restrictions: | |
| Net invested in property and equipment | 2,878,448 |
| Undesignated | 1,085,542 |
| | 3,963,990 |
| With donor restrictions | 2,997,487 |
| Total net assets | 6,961,477 |
| Total liabilities and net assets | $ 13,585,418 |

See notes to financial statements.

# Teen Challenge of Arizona, Inc.

## Statement of Activities

Year Ended December 31, 2022

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| Revenues and support: | | | |
| Contributions and grants | $ 3,697,892 | $ 1,322,804 | $ 5,020,696 |
| Donated goods, services, and property | 1,060,816 | - | 1,060,816 |
| Program service fees | 683,075 | - | 683,075 |
| Retail sales | 1,057,909 | - | 1,057,909 |
| Rent | 260,864 | - | 260,864 |
| Special events | 903,862 | - | 903,862 |
| Other income | 11,815 | - | 11,815 |
| Gain on disposal of assets | 4,250 | - | 4,250 |
| Net assets released from restriction | 204,197 | (204,197) | - |
| Total revenues and support | 7,884,680 | 1,118,607 | 9,003,287 |
| Expenses: | | | |
| Program services | 6,499,901 | - | 6,499,901 |
| Supporting: | | | |
| General and administrative | 368,669 | - | 368,669 |
| Fundraising | 704,178 | - | 704,178 |
| Total expenses | 7,572,748 | - | 7,572,748 |
| Other operating income: | | | |
| Employee retention credits | 777,200 | - | 777,200 |
| Change in net assets | 1,089,132 | 1,118,607 | 2,207,739 |
| Net assets, beginning | 2,874,858 | 1,878,880 | 4,753,738 |
| Net assets, ending | $ 3,963,990 | $ 2,997,487 | $ 6,961,477 |

See notes to financial statements.

## Teen Challenge of Arizona, Inc.

## Statement of Functional Expenses

Year Ended December 31, 2022

| | Program services | Supporting services: General and administrative | Supporting services: Fundraising | Total expenses |
|---|---|---|---|---|
| Salaries and wages | $ 2,896,238 | $ 109,490 | $ 273,613 | $ 3,279,341 |
| Employee related expenses | 324,336 | 16,553 | 46,974 | 387,863 |
| | 3,220,574 | 126,043 | 320,587 | 3,667,204 |
| Community outreach | 129,280 | 4,399 | 14,635 | 148,314 |
| Cost of goods sold | 975,058 | - | - | 975,058 |
| Depreciation | 266,930 | 72,143 | 21,643 | 360,716 |
| Insurance | 289,146 | 11,552 | 3,465 | 304,163 |
| Interest | 33,705 | 5,577 | 1,673 | 40,955 |
| Office expense and printing | 248,645 | 46,002 | 35,586 | 330,233 |
| Operating leases | 287,568 | - | - | 287,568 |
| Outside services | 43,104 | 69,049 | 95,316 | 207,469 |
| Repair and maintenance | 124,050 | 7,081 | 2,219 | 133,350 |
| Staff development and training | 21,446 | 2,530 | 1,524 | 25,500 |
| Student food and support | 140,825 | - | - | 140,825 |
| Telecommunications | 74,885 | 1,141 | 7,119 | 83,145 |
| Travel and transportation | 238,011 | 15,700 | 9,568 | 263,279 |
| Utilities | 361,495 | 4,867 | 1,460 | 367,822 |
| Other | 45,179 | 2,585 | 189,383 | 237,147 |
| | $ 6,499,901 | $ 368,669 | $ 704,178 | $ 7,572,748 |

# Teen Challenge of Arizona, Inc.

## Statement of Cash Flows

Year Ended December 31, 2022

| | |
|---|---|
| Cash flows from operating activities: | |
| Change in net assets | $ 2,207,739 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 360,716 |
| Loan fee amortization | 8,346 |
| Gain on disposal of assets | (4,250) |
| Change in operating leases | 6,799 |
| Contributions received for long-term purposes | (1,119,481) |
| Changes in operating assets and liabilities: | |
| Accounts receivable | 2,700 |
| Inventory | (77,681) |
| Other current assets | (29,363) |
| Employee retention credit receivable | (777,200) |
| Other assets | 8,182 |
| Accounts payable | 488,165 |
| Accrued expenses | 3,717 |
| Deferred revenue | (531,588) |
| Net adjustments | (1,660,938) |
| Net cash provided by operating activities | 546,801 |
| Cash flows from investing activities: | |
| Purchases of property and equipment | (4,738,320) |
| Proceeds from sale of assets | 4,250 |
| Net cash used in investing activities | (4,734,070) |
| Cash flows from financing activities: | |
| Proceeds on long-term debt | 3,039,490 |
| Payments on long-term debt | (73,173) |
| Contributions received for long-term purposes | 1,119,481 |
| Net cash provided by financing activities | 4,085,798 |
| Net decrease in cash and cash equivalents | (101,471) |
| Cash and cash equivalents, beginning | 1,026,507 |
| Cash and cash equivalents, ending | $ 925,036 |

See notes to financial statements.

1. Description of organization and summary of significant accounting policies:

Organization:

Teen Challenge of Arizona, Inc. (TCA or Organization) was incorporated as a not-for-profit corporation in 1965, pursuant to the laws of Arizona. The purpose of TCA 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. TCA is affiliated with Teen Challenge U.S.A. and governed by the Assembly of God, Division of Home Mission and is a member of the Evangelical Council for Financial Accountability.

TCA's program services consist of three residential recovery centers for men, a residential recovery center for women and their children, and a recovery center for teenage girls. The centers are located in Phoenix, Tucson, and Casa Grande, Arizona. Program services also include three thrift store operations located in Phoenix and Tucson which provide job training to individuals in their recovery centers.

TCA's viability is dependent upon the strength of the national and local economies, and the strength and support of the community.

Adoption of new accounting standards:

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842). Topic 842, which supersedes Topic 840, requires a lessee to recognize a lease asset and related lease liability on the statement of financial position. The Organization adopted Topic 842 as of January 1, 2022 using the effective date method and recognized and measured leases existing at January 1, 2022 through a cumulative effect adjustment. The Organization did not restate prior comparative periods as presented under Topic 840 and instead evaluated whether a cumulative effect adjustment to net assets without donor restrictions as of January 1, 2022 was necessary for the cumulative impact of adoption of Topic 842. The Organization elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allowed the Organization to carry forward the historical lease classification, not reassess whether any expired or existing contracts contain leases and not reassess initial direct costs on existing leases.

As a result of adopting Topic 842 effective January 1, 2022, the Organization recorded additional net lease assets and related lease liabilities of $400,781 and $403,518. Adoption of the new standard did not impact the Organization’s change in net assets and had no impact on cash flows.

The Organization adopted ASU 2020-07 "Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets" to increase the transparency of contributed nonfinancial assets (gifts-in-kind) through enhancements to presentation and disclosure by providing additional qualitative and quantitative disclosures.

1. Description of organization and summary of significant accounting policies (continued):

Net assets:

Net assets, support, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

- Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues, support and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and assumptions, including those related to inputs used to recognize revenue over time. Actual results could differ from those estimates and assumptions.

Revenue recognition:

The Organization recognizes childcare fees, intake fees, merchandise sales at thrift stores, and ticket sales for special events at a point in time when the goods or services are provided. The Organization also enters into agreements where program participants provide services and recognizes revenue when the services are provided at a point in time.

The Organization charges rent on a month to month basis to certain employees who reside at TCA facilities. Rental revenue is recognized monthly over time.

Transaction price:

For exchange transactions, the transaction price is the amount of consideration the Organization expects to be entitled to in exchange for transferring goods and services to the customer.

1. Description of organization and summary of significant accounting policies (continued):

Revenue recognition (continued):

Performance obligations:

Contracts that constitute exchange transactions are considered to contain a single performance obligation if the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts primarily because the Organization provides a significant service of integrating a complex set of tasks and components into a single project or capability. All of the Organization's contracts are considered to contain a single performance obligation.

Support recognition:

Contributions are considered non-exchange transactions and are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Promises to give are recognized as assets and contribution revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Promises to give are recorded at net realizable value if expected to be collected within one year and at the present value of their estimated future cash flows if expected to be collected in more than one year. Bequests are considered unconditional when a will has gone through probate and declared valid by the courts. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

The Organization conducts semi-annual banquets, primarily in the spring and fall, to raise funds in the support of its programs. The Organization asks donors to indicate their intention to give on an on-going monthly basis and not as a promise. Intentions to give are not recorded as support until the amount is collected from the donor.

Donated goods, services, and property:

Donated goods includes merchandise for sale at the Organization's thrift stores and supplies. Support arising from donated merchandise is recognized as contributions at its fair value on the date of receipt, which is based on the expected sales price for used goods, and reported as cost of goods sold expense when sold. Donated supplies are recognized in the financial statements at their estimated fair market value on the date of donation. Donated services are recognized at their fair value when the services received:

(a) create or enhance nonfinancial assets or
(b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

1. Description of organization and summary of significant accounting policies (continued):

Donated goods, services, and property (continued):

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist program and operating activities, and fundraising campaigns, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

Donations of property and equipment are recorded as contributions at their estimated fair market value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as net assets with donor restrictions. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC and SIPC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable:

The Organization records accounts receivable for its unconditional rights to consideration arising from performance under contracts with customers. The carrying value of such receivables represents their estimated net realizable value. At January 1, 2022, the balance of accounts receivable was $44,728.

Management considers all accounts over 30 days to be past due and provides an allowance for doubtful accounts based upon prior experience and management's assessment of the collectibility of specific accounts. Doubtful accounts are periodically reviewed for collectibility and charged against operations when management determines that all collection efforts have been exhausted. Receivable balances are considered fully collectible by management at December 31, 2022; therefore, no allowance for doubtful accounts has been provided.

1. Description of organization and summary of significant accounting policies (continued):

Property and equipment:

Property and equipment are stated at cost except for donated items, which are recorded at fair market value at the date of gift. Property and equipment with a value greater than $500 and a useful life of more than one year is capitalized. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

| | |
|---|---|
| Buildings | 10 - 40 years |
| Equipment | 5 - 10 years |
| Furniture and fixtures | 5 - 10 years |
| Vehicles | 5 years |

Leases:

The Organization leases buildings and equipment. The determination of whether an arrangement is a lease is made at the lease's inception. Under Topic 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Lease assets represent the Organization's right to use an underlying asset for the lease term, and lease liabilities represent the Organization's obligation to make lease payments. Lease assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when it is readily determinable. Since most of the Organization's leases do not provide an implicit rate, to determine the present value of lease payments, management uses the Organization's incremental borrowing rate based on the information available at lease commencement. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Operating lease assets also include any lease payments made and exclude any lease incentives. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The Organization has lease agreements with lease and non-lease components, which are generally accounted for separately, with amounts allocated to the lease and non-lease components based on stand-alone prices. None of the Organization's lease agreements contain any material residual value guarantees or material restrictive covenants.

1. Description of organization and summary of significant accounting policies (continued):

Impairment of long-lived assets:

The Organization reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of the long-lived assets is less than the carrying amount, the asset is considered impaired. Impairment losses would be measured as the amount by which the carrying amount exceeds the fair value of the asset. There was no impairment of long-lived assets recognized for 2022.

Inventory:

The thrift stores maintain inventories of used clothing, household goods and other items donated by the public for sale. In accordance with GAAP, this inventory is recorded as an asset in the financial statements based on the selling price. The thrift stores also maintain inventories of new items purchased by TCA. Purchased inventory is stated at the lower of cost or net realizable value.

Functional allocation of expenses:

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include salaries, employee benefits, depreciation, interest, merchant fees, dues and subscriptions, maintenance supplies, general office supplies, printing and utilities. Salaries, employee benefits, merchant fees, and dues and subscriptions are allocated based on time and effort. Depreciation, interest, maintenance supplies, general office supplies, printing and utilities are allocated based on square footage.

Advertising:

Advertising costs are expensed as incurred.

Tax exempt status:

The Organization is exempt from income taxes under both Federal (Internal Revenue Code Section 501(c)(3)) and Arizona income tax laws. However, income from activities unrelated to TCA's tax-exempt purpose is subject to taxation. The Organization has determined it does not have any unrelated business income tax.

From time to time, the Organization may be subject to penalties and interest assessed by various taxing authorities, which are classified as general and administrative expenses when they occur.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to December 31, 2022 through July 27, 2023, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

| | |
|---|---|
| Cash and cash equivalents | $ 925,036 |
| Accounts receivable | 42,028 |
| Refundable payroll taxes | 777,200 |
| Total financial assets | 1,744,264 |
| Donor restrictions, excluding amounts expended for construction in progress | (52,198) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 1,692,066 |

As part of the TCA's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, TCA has a committed line of credit in the amount of $500,000, which it could draw upon.

3. Inventory:

| | |
|---|---|
| Donated merchandise | $ 69,941 |
| Purchased merchandise | 7,740 |
| | $ 77,681 |

4. Employee retention credit:

Subsequent to the issuance of the financial statements for the years ended December 31, 2021 and 2020, TCA filed amended quarterly payroll tax reports to claim $777,200 in credits related to 2021 and 2020. Due to a significant backlog at the Internal Revenue Service processing centers, the refunds related to these claims are expected in 2023.

5. Property and equipment:

| | |
|---|---|
| Land | $ 1,494,782 |
| Buildings | 7,588,578 |
| Equipment | 1,150,193 |
| Furniture and fixtures | 231,124 |
| Vehicles | 1,001,941 |
| Construction in progress | 5,375,989 |
| | 16,842,607 |
| Less accumulated depreciation | 6,020,663 |
| | $ 10,821,944 |

During 2022, interest capitalized was $130,914, all of which is included in construction in progress at December 31, 2022.

6. Other assets:

Other assets include a grant developer fee in the amount of $122,713 incurred in 2021 in connection with the acquisition of an Affordable Housing Program grant from the Federal Home Loan Bank of New York. The fee also covers administration and reporting requirements during the initial construction period and annual compliance reporting thereafter. The fee is amortized over the term of the 15 year grant.

7. Leases:

The Organization leases real estate and equipment under noncancelable operating leases, which expire at various dates through 2027. Most leases include one or more options to renew, with renewal terms that can extend the lease term from 1 to 3 years. Only lease options that the Organization believes are reasonably certain to be exercised are included in the measurement of the lease assets and liabilities. Certain leases also include options to purchase the leased property. Lease assets are amortized over the lease term unless there is a transfer of title or purchase option reasonably certain of exercise, in which case the asset life is used.

The components of lease cost are as follows:

| | |
|---|---|
| Operating lease cost, included in operating expenses | $ 287,568 |

7. Leases (continued):

Cash flow information related to leases is as follows:

| | | |
|---|---|---|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows - operating leases | $ | 287,568 |
| Lease assets obtained in exchange for lease liabilities: | | |
| Operating leases | | 333,728 |

Other information related to leases is as follows:

| | |
|---|---|
| Lease term (in years) and discount rate: | |
| Weighted-average remaining lease term, operating leases | 3.4 |
| Weighted-average discount rate, operating leases | 6.0 % |

The maturities of lease liabilities as of December 31, 2022 were as follows:

| Year ending December 31, | | Operating |
|---|---|---|
| 2023 | $ | 365,114 |
| 2024 | | 249,635 |
| 2025 | | 88,165 |
| 2026 | | 71,188 |
| 2027 | | 27,319 |
| Total lease payments | | 801,421 |
| Less interest | | 64,175 |
| Present value of lease liabilities | $ | 737,246 |

The present value of lease liabilities are reported in the statement of financial position as follows:

| | | |
|---|---|---|
| Current portion of operating leases obligations | $ | 365,114 |
| Operating lease obligations, net of current portion | | 372,132 |
| | $ | 737,246 |

8. Line of credit:

TCA has a $500,000 line of credit with a lender to be drawn on as needed. Amounts drawn under the line of credit bear interest at 5.5% and require monthly payments of accrued interest. The interest rate may be adjusted annually, and in no event shall the interest rate increase or decrease more than 2% on any change, nor drop below the initial interest rate of 5.5% or exceed 6% above the initial rate. The line is secured by a building and expires in October 2026. There was no balance outstanding on the line of credit at December 31, 2022.

9. Long-term debt:

| | |
|---|---|
| Note payable, Assemblies of God Loan Fund, payable in monthly installments of $9,627, including interest of 4.5% through October 2041, collateralized by deed of trust, assignment of leases and rents, and security agreements related to the property associated with the loan. | $ 1,864,142 |
| Construction note payable, Assemblies of God Loan Fund, payable in monthly interest only installments until September 2023 with interest at 6.44% during construction. The note converts to term loan on October 1, 2023, payable in monthly installments including interest at 5.99% through April 2039, secured by TCA's assets. | 2,535,000 |
| Construction note payable, Assemblies of God Loan Fund, payable in monthly interest only installments until June 2024 with interest at 5.95% during construction. The note converts to term loan on July 1, 2024, payable in monthly installments including interest at 5.5% through January 2026, secured by TCA's assets. | 419,560 |
| Note payable, Balboa Capital, payable in monthly installments of $1,211, including interest at 7.11% through August 2024, collateralized by a vehicle. | 22,769 |
| Note payable, Ally Financial, payable in monthly installments of $679, including interest at 10.94% through June 2024, collateralized by a vehicle. | 11,129 |
| Note payable, Ford Credit, payable in monthly installments of $501, including interest at 9.69% through May 2024, collateralized by a vehicle. | 8,051 |
| Note payable, Balboa Capital, payable in monthly installments of $826, including interest at 5.65% through March 2027, collateralized by a vehicle. | 37,369 |
| Note payable, Balboa Capital, payable in monthly installments of $1,140, including interest of 5.56% through January 2028, collateralized by a vehicle. | 57,679 |
| Note payable, Balboa Capital, payable in monthly installments of $893, including interest of 5.64% through June 2027, collateralized by a vehicle. | 42,511 |
| | 4,998,210 |
| Less unamortized debt issuance costs | 53,573 |
| Less current portion | 94,896 |
| | $ 4,849,741 |

9. Long-term debt (continued):

Future maturities of long-term debt are as follows:

| Year ending December 31, | |
|---|---|
| 2023 | $ 94,896 |
| 2024 | 125,040 |
| 2025 | 118,960 |
| 2026 | 529,389 |
| 2027 | 112,416 |
| Thereafter | 4,017,509 |
| | $ 4,998,210 |

10. Paycheck Protection Program loan:

TCA obtained a $531,588 loan from BBVA USA under the Paycheck Protection Program (PPP) in April 2020. Under the terms of the PPP, up to 100% of the loan (and related interest) may be forgiven if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met. TCA applied for forgiveness with the lender in February 2021 and received forgiveness of $531,588 from the Small Business Administration (SBA) in November 2022.

TCA accounts for the PPP loan as a conditional grant in accordance with ASC 958-605. The grant is conditional based on TCA incurring covered expenses, maintaining employee count, and limiting salary reductions. During 2022, TCA recorded $531,588 as grant revenue based on their assessment of conditions that have been substantially met.

The SBA may undertake a review of a loan of any size during the ten-year period following forgiveness or repayment of the loan. The review may include the loan forgiveness application, eligibility for the program, as well as whether TCA received the proper loan amount. The timing and outcome of any SBA review is not known.

11. Net assets with donor restrictions:

Net assets with donor restrictions are restricted for the following purposes:

| | |
|---|---|
| Remodeling of Christian Life Ranch recovery center | $ 1,619,367 |
| Remodeling of Tucson men's recovery center | 1,325,922 |
| Remodeling of Phoenix men's recovery center | 52,198 |
| | $ 2,997,487 |

12. Retirement plan:

TCA maintains a 403(b) defined contribution plan. Substantially all full-time employees are eligible to contribute to the plan after 90 days of employment. TCA matches employee contributions up to 3% beginning after one year of employment, and employer contributions vest 20% for each year of employment beginning at the end of the second year of service and increasing until fully vested at the end of six years of employment. Total contributions for the year ended December 31, 2022 were $22,269.

13. Donated goods, services, and property:

The following donated goods and property were primarily utilized in the Organization's programs:

| | |
|---|---|
| Construction materials | $ 17,673 |
| Food | 46,705 |
| Furniture | 2,300 |
| Merchandise for thrift store | 958,075 |
| Program resources | 13,751 |
| Student incentives | 4,861 |
| Supplies | 6,058 |
| Vehicles | 11,393 |
| | $ 1,060,816 |

The Organization recognizes in-kind contributions within support. Unless otherwise noted, these contributions did not have donor-imposed restrictions.

Contributed used furniture and vehicles are valued based on resale values for similar items. Contributed construction materials, food, program resources, student incentives and supplies are valued based upon estimates of retail values that would be paid for purchasing similar products. Contributed merchandise for sale at thrift stores is valued based on expected sales value.

14. Statement of cash flows:

Supplemental disclosure of cash flow information:
Cash paid for interest was $144,151 for the year ended December 31, 2022.

15. Concentrations:

During the year ended December 31, 2022, one donor accounted for 11% of total revenues and support.

16. Commitment:

The Organization was awarded a grant for $1,967,469 from the Federal Home Loan Bank in December 2021 for construction of buildings at the Organization's Christian Life Ranch recovery center. TCA must use the center for the intended purpose outlined in the loan application and continue to operate as a 501(c)(3) organization for the duration of the retention period as well as comply with reporting requirements. In the event of noncompliance, the Organization would have to repay the entire amount to the Federal Home Loan Bank. The Organization fully intends to comply with the terms of the note and believes that the possibility of not being in compliance to the end of the retention period is remote. No amounts have been drawn on the grant at December 31, 2022.

17. Contingency:

From time to time, TCA is party to certain pending or threatened lawsuits arising out of or incident to the ordinary course of business for which it carries general liability and other insurance coverages. In the opinion of management and based upon consultation with legal counsel, resolution of pending or threatened lawsuits will not have a material adverse effect on TCA's financial statements.