

# Teen Challenge of Arizona, Inc.

Years Ended December 31, 2023  
and 2022

# Teen Challenge of Arizona, Inc.

Years Ended December 31, 2023 and 2022

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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 statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years 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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **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 25, 2024

## Teen Challenge of Arizona, Inc.

### Statements of Financial Position

December 31, 2023 and 2022

	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,211,194	\$ 925,036
Accounts receivable	47,469	42,028
Inventory	66,615	77,681
Other current assets	39,599	77,717
Employee retention credit receivable	-	777,200
Total current assets	1,364,877	1,899,662
Property and equipment, net	14,322,657	10,821,944
Operating lease assets	408,482	730,447
Deposits	14,324	14,324
Other assets	110,859	119,041
Total assets	\$ 16,221,199	\$ 13,585,418
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 99,036	\$ 94,896
Current portion of operating lease obligations	249,635	365,114
Accounts payable	204,985	599,469
Accrued expenses	413,659	342,589
Total current liabilities	967,315	1,402,068
Long-term debt, net of current portion	6,081,638	4,849,741
Operating lease obligations, net of current portion	157,412	372,132
Total liabilities	7,206,365	6,623,941
Commitment and contingency		
Net assets:		
Without donor restrictions:		
Net invested in property and equipment	5,072,931	2,878,448
Undesignated	733,995	1,085,542
	5,806,926	3,963,990
With donor restrictions	3,207,908	2,997,487
Total net assets	9,014,834	6,961,477
Total liabilities and net assets	\$ 16,221,199	\$ 13,585,418

See notes to financial statements.

## Teen Challenge of Arizona, Inc.

### Statement of Activities

Year Ended December 31, 2023

	Without donor restrictions	With donor restrictions	Total
<b>Revenues and support:</b>			
Contributions and grants	\$ 3,547,546	\$ 3,579,784	\$ 7,127,330
Donated goods, services, and property	841,131	-	841,131
Program service fees	597,612	-	597,612
Retail sales	1,110,886	-	1,110,886
Rental income	259,001	-	259,001
Special events, net of costs of direct benefits to donors of \$13,737	885,997	-	885,997
Other income	79,916	-	79,916
Net assets released from restriction	3,369,363	(3,369,363)	-
Total revenues and support	10,691,452	210,421	10,901,873
<b>Expenses:</b>			
Program services	7,603,964	-	7,603,964
Supporting:			
General and administrative	378,140	-	378,140
Fundraising	866,412	-	866,412
Total expenses	8,848,516	-	8,848,516
Change in net assets	1,842,936	210,421	2,053,357
Net assets, beginning	3,963,990	2,997,487	6,961,477
Net assets, ending	\$ 5,806,926	\$ 3,207,908	\$ 9,014,834

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
<b>Revenues and support:</b>			
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
Rental income	260,864	-	260,864
Special events, net of costs of direct benefits to donors of \$13,957	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
<b>Expenses:</b>			
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
<b>Other operating income:</b>			
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, 2023

	Program	Supporting services		Total expenses
		General and administrative	Fundraising	
Salaries and wages	\$ 3,013,736	\$ 116,239	\$ 367,295	\$ 3,497,270
Employee related expenses	<u>410,636</u>	<u>21,735</u>	<u>66,264</u>	<u>498,635</u>
	3,424,372	137,974	433,559	3,995,905
Community outreach	125,389	5,585	28,399	159,373
Cost of goods sold	1,005,681	-	-	1,005,681
Depreciation	361,808	14,834	4,641	381,283
Insurance	304,849	10,517	3,290	318,656
Interest	68,835	7,127	2,230	78,192
Loss on disposal of assets	317,226	-	-	317,226
Office expense and printing	208,678	35,041	25,963	269,682
Operating leases	596,208	-	-	596,208
Outside services	26,854	112,261	91,609	230,724
Repairs and maintenance	144,944	5,355	1,675	151,974
Staff development and training	43,125	2,963	1,934	48,022
Student food and support	149,040	-	-	149,040
Telecommunications	73,921	1,148	7,653	82,722
Travel and transportation	281,061	21,735	23,069	325,865
Utilities	387,775	4,712	1,474	393,961
Other	<u>84,198</u>	<u>18,888</u>	<u>240,916</u>	<u>344,002</u>
	<u>\$ 7,603,964</u>	<u>\$ 378,140</u>	<u>\$ 866,412</u>	<u>\$ 8,848,516</u>

See notes to financial statements.

## Teen Challenge of Arizona, Inc.

### Statement of Functional Expenses

Year Ended December 31, 2022

	Program services	Supporting services		Total expenses
		General and administrative	Fundraising	
Salaries and wages	\$ 2,896,238	\$ 109,490	\$ 273,613	\$ 3,279,341
Employee related expenses	<u>324,336</u>	<u>16,553</u>	<u>46,974</u>	<u>387,863</u>
	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
Repairs 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	<u>45,179</u>	<u>2,585</u>	<u>189,383</u>	<u>237,147</u>
	<u>\$ 6,499,901</u>	<u>\$ 368,669</u>	<u>\$ 704,178</u>	<u>\$ 7,572,748</u>

See notes to financial statements.

## Teen Challenge of Arizona, Inc.

### Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,053,357	\$ 2,207,739
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	381,282	360,716
Loan fee amortization	8,047	8,346
Gain (loss) on disposal of assets	317,226	(4,250)
Change in operating leases	(8,234)	6,799
Contributions received for long-term purposes	(3,069,137)	(1,119,481)
Changes in operating assets and liabilities:		
Accounts receivable	(5,441)	2,700
Inventory	11,066	(77,681)
Other current assets	38,118	(29,363)
Employee retention credit receivable	777,200	(777,200)
Other assets	8,182	8,182
Accounts payable	(394,484)	488,165
Accrued expenses	71,070	3,717
Deferred revenue	-	(531,588)
Net adjustments	<u>(1,865,105)</u>	<u>(1,660,938)</u>
Net cash provided by operating activities	<u>188,252</u>	<u>546,801</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,199,221)	(4,738,320)
Proceeds from sale of assets	-	4,250
Net cash used in investing activities	<u>(4,199,221)</u>	<u>(4,734,070)</u>
Cash flows from financing activities:		
Proceeds on long-term debt	1,298,788	3,039,490
Payments on long-term debt	(70,798)	(73,173)
Contributions received for long-term purposes	<u>3,069,137</u>	<u>1,119,481</u>
Net cash provided by financing activities	<u>4,297,127</u>	<u>4,085,798</u>
Net increase (decrease) in cash and cash equivalents	286,158	(101,471)
Cash and cash equivalents, beginning	<u>925,036</u>	<u>1,026,507</u>
Cash and cash equivalents, ending	<u>\$ 1,211,194</u>	<u>\$ 925,036</u>

See notes to financial statements.

# Teen Challenge of Arizona, Inc.

## Notes to Financial Statements

Years Ended December 31, 2023 and 2022

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 June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326), which significantly changed how entities measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in Topic 326 are trade accounts receivable.

The Organization adopted Topic 326 effective January 1, 2022. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

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.

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

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

Net assets (continued):

- 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.

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.

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

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

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.

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.

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

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

Donated goods, services, and property (continued):

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 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 Organization grants credit to its customers, generally without collateral or interest. The carrying value of such receivables, net of allowance for credit losses, represents their estimated net realizable value. At January 1, 2022, the balance of accounts receivable was \$44,728.

Allowance for credit losses:

At each statement of financial position date, the Organization recognizes an expected allowance for credit losses, and at each reporting date, this estimate is updated to reflect any changes in credit risk since the financial asset was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The Organization uses the aging method to estimate its allowance for credit losses. The allowance estimate is derived from a review of the Organization's historical losses based on the aging of financial assets. The Organization believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses as the Organization's customer base has remained consistent since the Organization's inception. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Organization. Based on management's assessment, there is no material allowance for credit losses for the years ending December 31, 2023 and 2022.

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

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

Allowance for credit losses (continued):

The Organization writes off financial assets when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized as an offset to credit loss expense in the year of recovery. The total amount of write-offs was immaterial to the financial statements as a whole for the years ended December 31, 2023 and 2022.

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 recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Organization determines if an arrangement is a lease at inception and when the terms of an existing 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 arising from the lease. Operating lease assets and liabilities are recognized at 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. As most of the Organization's leases do not provide an implicit rate, management uses the incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Operating lease assets also include any lease payments made and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option.

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.

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

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

Leases (continued):

The Organization has elected to apply the short-term lease exemption to one of its classes of underlying assets, storage facilities. In 2023, the Organization has only a small number of leases within this class of underlying asset that qualify for the exemption.

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 2023 and 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.

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

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

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to December 31, 2023 through July 25, 2024, 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.

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,211,194	\$ 925,036
Accounts receivable	47,469	42,028
Refundable payroll taxes	<u>-</u>	<u>777,200</u>
Total financial assets	1,258,663	1,744,264
Donor restrictions, excluding amounts expended for construction in progress	<u>(647,703)</u>	<u>(52,198)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 610,960</u>	<u>\$ 1,692,066</u>

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:

	<u>2023</u>	<u>2022</u>
Donated merchandise	\$ 58,831	\$ 69,941
Purchased merchandise	<u>7,784</u>	<u>7,740</u>
	<u>\$ 66,615</u>	<u>\$ 77,681</u>

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

4. Employee retention credit:

The Organization filed amended quarterly payroll tax reports to claim \$777,200 in federal employee retention credits for the years ended December 31, 2021 and 2020, which were filed in September 2022. The Internal Revenue Service (IRS) has up to five years from the filing date of the amended return to audit the claim. Management believes they have filed valid claims for the credit and has not been notified of any audit by the IRS. The timing and outcome of any possible audit is not known.

5. Property and equipment:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,793,662	\$ 1,494,782
Buildings	13,192,993	7,588,578
Equipment	1,132,045	1,150,193
Furniture and fixtures	224,035	231,124
Vehicles	1,011,216	1,001,941
Construction in progress	<u>2,638,443</u>	<u>5,375,989</u>
	19,992,394	16,842,607
Less accumulated depreciation	<u>5,669,737</u>	<u>6,020,663</u>
	<u>\$ 14,322,657</u>	<u>\$ 10,821,944</u>

During 2023 and 2022, interest capitalized related to construction in progress was \$267,665 and \$130,914.

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 has operating leases for retail and program space, and office equipment with initial noncancelable terms in excess of one year that expire through April 2027. Additionally, these leases contain renewal options for periods ranging from one to three years. Because the Organization is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments.

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

7. Leases (continued):

The components of lease cost are as follows:

	2023	2022
Operating lease cost, included in operating expenses	\$ 553,868	\$ 287,568
Short-term lease cost, included in operating expenses	42,340	-
Total lease cost	\$ 596,208	\$ 287,568

Cash flow information related to leases is as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows - operating leases	\$ 596,208	\$ 287,568
Lease assets obtained in exchange for lease liabilities:		
Operating leases	-	333,728

Other information related to leases is as follows:

	2023	2022
Lease term (in years) and discount rate:		
Weighted-average remaining lease term, operating leases	1.5	3.4
Weighted-average discount rate, operating leases	6.0 %	6.0 %

The maturities of lease liabilities as of December 31, 2023 were as follows:

		Operating
Year ending <u>December 31,</u>		
2024		\$ 249,635
2025		88,165
2026		71,188
2027		24,800
Total lease payments		433,788
Less interest		26,741
Present value of lease liabilities		\$ 407,047

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

7. Leases (continued):

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

	2023	2022
Current portion of operating leases obligations	\$ 249,635	\$ 365,114
Operating lease obligations, net of current portion	157,412	372,132
	\$ 407,047	\$ 737,246

8. Line of credit:

TCA has a \$500,000 line of credit with Assemblies of God Loan Fund to be drawn on as needed. Amounts drawn under the line of credit bear interest at 7.5% 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, 2023.

9. Long-term debt:

	2023	2022
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.	\$ 1,831,843	\$ 1,864,142
Construction note payable, Assemblies of God Loan Fund, payable in monthly interest only installments through June 2024 with interest at 6.44% during construction. The note converts to term loan on July 1, 2024, payable in monthly installments including interest at 5.99% through April 2039, secured by TCA's assets.	2,535,000	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.	1,718,348	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.	9,685	22,769

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

9. Long-term debt (continued):

	2023	2022
Note payable, Ally Financial, payable in monthly installments of \$679, including interest at 10.94% through June 2024, collateralized by a vehicle.	\$ 3,192	\$ 11,129
Note payable, Ford Credit, payable in monthly installments of \$501, including interest at 9.69% through May 2024, collateralized by a vehicle.	2,533	8,051
Note payable, Balboa Capital, payable in monthly installments of \$826, including interest at 5.65% through March 2027, collateralized by a vehicle.	32,214	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.	55,877	57,679
Note payable, Balboa Capital, payable in monthly installments of \$893, including interest of 5.64% through June 2027, collateralized by a vehicle.	<u>37,508</u>	<u>42,511</u>
	6,226,200	4,998,210
Less unamortized debt issuance costs	45,526	53,573
Less current portion	<u>99,036</u>	<u>94,896</u>
	<u>\$ 6,081,638</u>	<u>\$ 4,849,741</u>

Future maturities of long-term debt are as follows:

Year ending <u>December 31,</u>	
2024	\$ 99,036
2025	136,085
2026	1,797,497
2027	115,742
2028	100,367
Thereafter	<u>3,977,473</u>
	<u>\$ 6,226,200</u>

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

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. The review will include the loan forgiveness application, as well as whether TCA met the eligibility requirements of the program and 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:

	<u>2023</u>	<u>2022</u>
Remodeling of Christian Life Ranch recovery center	\$ -	\$ 1,325,922
Remodeling of Tucson men's recovery center	3,147,925	1,619,367
Phoenix men's recovery center	51,653	52,198
Other	<u>8,330</u>	<u>-</u>
Total restricted	3,207,908	2,997,487
Less restricted amounts expended for construction in progress	<u>2,560,205</u>	<u>2,945,288</u>
	<u>\$ 647,703</u>	<u>\$ 52,199</u>

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

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 years ended December 31, 2023 and 2022 were \$26,921 and \$22,269.

13. Donated goods, services, and property:

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

	<u>2023</u>	<u>2022</u>
Construction materials	\$ 12,000	\$ 17,673
Food	18,610	46,705
Furniture	-	2,300
Merchandise for thrift store	794,019	958,075
Program resources	6,249	13,751
Student incentives	4,688	4,861
Supplies	3,790	6,058
Vehicles	<u>1,775</u>	<u>11,393</u>
	<u>\$ 841,131</u>	<u>\$ 1,060,816</u>

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 \$331,693 and \$144,151 for the years ended December 31, 2023 and 2022.

## Teen Challenge of Arizona, Inc.

### Notes to Financial Statements (continued)

Years Ended December 31, 2023 and 2022

15. Concentrations:

During the years ended December 31, 2023 and 2022, one donor accounted for 32% and 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, 2023 and 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.

18. Subsequent event:

In February 2024 the Organization obtained a \$994,000 construction loan from Assemblies of God loan fund. The loan bears interest at 8.95% through August 2025 and converts to a term loan in September 2025 with interest at 8.5%.