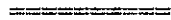


TEEN CHALLENGE OF ARKANSAS, INC.



HOT SPRINGS VILLAGE, ARKANSAS

SEPTEMBER 30, 2016

TEEN CHALLENGE OF ARKANSAS, INC.  
HOT SPRINGS VILLAGE, ARKANSAS

AUDIT REPORT - TABLE OF CONTENTS  
SEPTEMBER 30, 2016

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# TURNER, RODGERS, MANNING & PLYLER, PLLC

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Teen Challenge of Arkansas, Inc.

We have audited the accompanying financial statements of Teen Challenge of Arkansas, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, 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 these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves 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 fraud or error. 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 in 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 Arkansas, Inc. as of September 30, 2016 and 2015, 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.

*Turner, Rodgers, Manning & Plyler, PLLC*

February 13, 2017  
Arkadelphia, Arkansas

TEEN CHALLENGE OF ARKANSAS, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 SEPTEMBER 30, 2016 AND 2015

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	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 172,733	\$ 245,802
Pledges Receivable Less Allowance for Uncollectibles (\$3,130 for 2016; \$10,580 for 2015)	8,975	15,967
Prepaid Insurance	11,762	15,417
<b>TOTAL CURRENT ASSETS</b>	<u>193,470</u>	<u>277,186</u>
 <b>LAND, BUILDINGS AND EQUIPMENT:</b>		
Land	148,047	148,047
Buildings and Improvements	1,637,770	1,557,322
Furniture and Equipment	241,335	214,898
Vehicles	193,971	159,675
	<u>2,221,123</u>	<u>2,079,942</u>
Less Accumulated Depreciation	(977,891)	(917,236)
<b>TOTAL LAND, BUILDINGS AND EQUIPMENT</b>	<u>1,243,232</u>	<u>1,162,706</u>
 <b>OTHER ASSETS:</b>		
Residential Lot and Other Real Estate	6,501	6,501
Utility Deposits	300	300
<b>TOTAL OTHER ASSETS</b>	<u>6,801</u>	<u>6,801</u>
 <b>TOTAL ASSETS</b>	<u>\$ 1,443,503</u>	<u>\$ 1,446,693</u>

The accompanying Notes are an integral part of these Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 SEPTEMBER 30, 2016 AND 2015

LIABILITIES AND NET ASSETS

	2016	2015
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 22,697	\$ 12,363
Payroll Taxes	695	677
Student Deposits	4,708	6,434
Lease Payable - Current	3,708	-
Note Payable - Current	25,833	29,401
<b>TOTAL CURRENT LIABILITIES</b>	<b>57,641</b>	<b>48,875</b>
 <b>LONG-TERM LIABILITIES:</b>		
Lease Payable	3,399	-
Notes Payable	488,358	511,156
 <b>TOTAL LIABILITIES</b>	<b>549,398</b>	<b>560,031</b>
 <b>NET ASSETS:</b>		
Unrestricted:		
Undesignated	143,881	243,330
Net Investment in Fixed Assets	729,041	622,149
Board Designated	21,183	21,183
<b>TOTAL NET ASSETS</b>	<b>894,105</b>	<b>886,662</b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,443,503</b>	<b>\$ 1,446,693</b>

The accompanying Notes are an integral part of these Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.  
STATEMENTS OF ACTIVITIES  
FOR YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>SUPPORT AND REVENUE:</b>				
Contributions	\$ 505,547	\$ 17,959	\$ 523,506	\$ 540,063
Contract Services	90,662	-	90,662	102,278
Induction Fees	53,303	-	53,303	65,225
Sale of Items	216,099	-	216,099	153,652
Miscellaneous Income	300	90,145	90,445	59,596
Interest and Dividend Income	40	-	40	582
<b>TOTAL</b>	<u>865,951</u>	<u>108,104</u>	<u>974,055</u>	<u>921,396</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS:</b>				
Satisfaction of Usage Restriction	108,104	(108,104)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>974,055</u>	<u>-</u>	<u>974,055</u>	<u>921,396</u>
<b>EXPENSES:</b>				
Program Services	842,882	-	842,882	857,010
Management and General	78,792	-	78,792	60,249
Fund Raising	44,938	-	44,938	33,883
<b>TOTAL EXPENSES</b>	<u>966,612</u>	<u>-</u>	<u>966,612</u>	<u>951,142</u>
<b>CHANGE IN NET ASSETS</b>	<u>7,443</u>	<u>-</u>	<u>7,443</u>	<u>(29,746)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	886,662	-	886,662	916,408
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 894,105</u>	<u>\$ -</u>	<u>\$ 894,105</u>	<u>\$ 886,662</u>

The accompanying Notes are an integral part of these Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.  
 STATEMENTS OF CASH FLOWS  
 FOR YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Donors and Sales	\$ 886,584	\$ 802,921
Cash Received from Contract Services	90,662	102,278
Interest and Dividends Received	40	582
Cash Paid to Employees and Suppliers	(864,742)	(881,604)
Interest Paid	(25,379)	(17,966)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>87,165</b>	<b>6,211</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash Paid for Building and Equipment	(141,181)	(80,403)
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>(141,181)</b>	<b>(80,403)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Lease Payable	11,124	184,960
Cash Paid on Debt	(30,383)	(14,248)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>(19,259)</b>	<b>170,712</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(73,275)</b>	<b>96,520</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>245,802</b>	<b>149,282</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 172,527</b>	<b>\$ 245,802</b>

The accompanying Notes are an integral part of these Financial Statements.



TEEN CHALLENGE OF ARKANSAS, INC.  
 STATEMENTS OF CASH FLOWS  
 FOR YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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Reconciliation of net change in net assets to net cash flow from operating activities:

	2016	2015
CHANGE IN NET ASSETS	\$ 7,443	\$ (29,746)
ADJUSTMENTS TO CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	60,655	60,745
Bad Debts	3,555	5,180
Change in Assets and Liabilities:		
Pledges Receivable / Accounts Receivable	3,231	(15,615)
Prepaid Expenses	3,655	(7,723)
Accounts Payable	10,334	(8,202)
Accrued Liabilities	(1,708)	1,572
TOTAL ADJUSTMENTS	79,722	35,957
NET CASH FLOW FROM OPERATING ACTIVITIES	\$ 87,165	\$ 6,211

SCHEDULE OF NONCASH INVESTING AND FINANCING  
ACTIVITIES:

None

The accompanying Notes are an integral part of these Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 FOR YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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	Program Services	Supporting Services		2016 Total	2015 Total
		Management and General	Fund Raising		
EXPENSES:					
Salaries and Related Expenses:					
Salaries and Executive Director	\$ 258,043	\$ 30,358	\$ 15,179	\$303,580	\$ 297,678
Payroll Taxes	21,141	2,487	1,243	24,871	23,659
Employee Benefits	1,441	-	-	1,441	3,426
Total Salaries and Related Expenses	<u>280,625</u>	<u>32,845</u>	<u>16,422</u>	<u>329,892</u>	<u>324,763</u>
Fund Raising	19,154	-	18,811	37,965	33,092
Regional Conference	962	-	-	962	5,144
Thrift Store	38,724	-	-	38,724	20,234
Staff Development	9,497	1,117	559	11,173	6,790
Utilities and Telephone	78,943	4,155	-	83,098	97,285
Office Expense	27,977	27,976	-	55,953	40,482
Printing	1,855	1,855	3,709	7,419	5,715
Postage	7,717	3,307	-	11,024	10,409
Transportation	45,251	5,028	-	50,279	63,236
Food and Kitchen Expense	28,684	-	-	28,684	35,606
Home Maintenance	26,460	-	-	26,460	14,515
Cost of Contract Services	32,396	-	-	32,396	34,470
Bad Debts	3,555	-	-	3,555	5,180
Home Supplies and Equipment	14,765	-	-	14,765	19,962
Education	7,255	-	-	7,255	18,608
Travel	10,525	-	5,437	15,962	18,475
Outreach	3,557	-	-	3,557	3,310
Student Assistance	15,520	-	-	15,520	15,568
Missions	13,160	-	-	13,160	13,160
Insurance	64,925	-	-	64,925	62,934
Rent and Storage	886	-	-	886	3,155
Depreciation	60,655	-	-	60,655	60,745
Professional Fees	10,036	2,509	-	12,545	12,667
Interest	25,379	-	-	25,379	17,966
Miscellaneous	14,419	-	-	14,419	7,671
TOTAL EXPENSES	<u>\$ 842,882</u>	<u>\$ 78,792</u>	<u>\$ 44,938</u>	<u>\$966,612</u>	<u>\$ 951,142</u>

The accompanying Notes are an integral part of these Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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Note 1. Summary of Significant Accounting Policies:

Teen Challenge of Arkansas, Inc. is a non-profit corporation with a primary purpose to evangelize and win young people to Jesus Christ and for the religious and educational rehabilitation of young people who may benefit from its specialized ministry. The program targets young male adults. The beneficiaries' participation in the program is voluntary, and they must abide by rules established by the Organization to participate in the program.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

The major portion of revenues is derived from contributions received from Assembly of God churches and their members. The Organization also conducts various work projects to earn revenue. The work projects consist of providing labor for businesses and individuals in the Hot Springs area on a fee and hourly basis.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

Unconditional promises to give have been recorded under ASC topic 958-310 based on pledges outstanding as of September 30, 2016. An allowance for uncollectible amounts has been established.

Management has evaluated subsequent events through February 13, 2017, the date the financial statements were available for issuance.

Note 2. Land, Buildings and Equipment:

The Organization follows the practice of capitalizing expenditures for land, buildings, and equipment with an estimated useful life of three years or more; the fair value of donated fixed assets are similarly capitalized. Depreciation is computed on a straight-line basis over the estimated lives generally as follows:

Buildings and Improvements	10 – 39 Years
Furniture and Equipment	2 – 10 Years
Vehicles	3 – 5 Years

TEEN CHALLENGE OF ARKANSAS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2016

Note 3. Capital Assets:

Capital Asset activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<b>CAPITAL ASSETS AT HISTORICAL COST:</b>				
Land	\$ 148,047	\$ -	\$ -	\$ 148,047
Buildings and Improvements	1,557,322	80,448	-	1,637,770
Furniture and Equipment	214,898	26,437	-	241,335
Vehicles	159,675	34,296	-	193,971
<b>TOTAL CAPITAL ASSETS AT HISTORICAL COST</b>	<b>2,079,942</b>	<b>141,181</b>	<b>-</b>	<b>2,221,123</b>
Less: Accumulated Depreciation	(917,236)	(60,655)	-	(977,891)
<b>TOTALS</b>	<b>\$1,162,706</b>	<b>\$ 80,526</b>	<b>\$ -</b>	<b>\$ 1,243,232</b>

Note 4. Donated Use of Space, Materials, and Services:

No amounts have been reflected in the statements for donated materials and services at date of receipt inasmuch as no objective basis is available to measure the value of such donations. Donated items which are sold at auction are recorded as sales at the date of sale. The Organization is allowed free use of a cabin located at a nearby campground. No amounts are reflected in the statements for the use of this asset.

Note 5. FDIC Coverage:

Teen Challenge of Arkansas, Inc. has a total of three demand accounts in three separate financial institutions. These three financial institutions are FDIC Insured, and offer \$250,000 insurance on bank deposits. Teen Challenge of Arkansas, Inc.'s accounts were fully insured on September 30, 2016.

TEEN CHALLENGE OF ARKANSAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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Note 6. Leases:

The Organization rents a storage building on a month-to-month basis (as needed) at a cost of \$90 per month.

Note 7. Functional Allocation of Expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Note 8. Income Taxes:

Teen Challenge of Arkansas, Inc. is a non-profit organization within the meaning of Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes and is not a private foundation within the meaning of Section 509(A) of the Internal Revenue Code. There was no unrelated business income for 2016. The organization held no uncertain tax positions as of September 30, 2016. Accordingly, no provision or liability for income taxes or related interest or penalties is included in the accompanying financial statements. Such amounts, if incurred, would be recognized in accrued income taxes and income tax expense. Tax periods for all years ending after September 30, 2012 remain open to examination by the federal and state taxing jurisdictions to which the organization is subject.

Note 9. Note Payable:

In May of 2014 the organization entered into an interest only note payable with Simmons First Bank. In May of 2015 the interest only note was converted to an ordinary mortgage (principal and interest). Payments, including interest (4.12%) are made for \$3,877.97, due on the 15<sup>th</sup> day of each month.

TEEN CHALLENGE OF ARKANSAS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2016

Note 9. Note Payable (continued):

Note Payable as of September 30, 2016 and 2015 was as follows:

	9/30/2016	9/30/2015
Simmons First Bank, Original Amount \$550,000, Due in Monthly Installments of \$3,878, Including Interest at 4.12%, Secured by Building and Land	\$ 514,191	\$ 540,557
Total	514,191	540,557
Less Portion Considered Current	(25,833)	(29,401)
TOTAL LONG-TERM NOTES PAYABLE	\$ 488,358	\$ 511,156

Required principal payments for the next five years are as follows:

9/30/2017	\$	25,833
9/30/2018		26,917
9/30/2019		28,048
9/30/2020		29,225
9/30/2021		27,867
Thereafter		376,301
TOTAL	\$	514,191

TEEN CHALLENGE OF ARKANSAS, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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Note 10. Lease Payable:

In October of 2015 the organization entered into three year lease agreement for the use of two Toshiba@Studio 3540C copier/printers. The lease is for a three year period with monthly payments totaling \$11,124 with the option to purchase for \$1 at the conclusion of the thirty-six month lease. It is estimated that the FMV at that time will be around \$1,000 for each. Lease is treated as a capital lease.

The following is an analysis of the leased asset included in Furniture and Equipment:

	<u>2016</u>
Furniture & Equipment	\$11,124
Less Accumulated Depreciation	<u>(1,112)</u>
	<u>\$10,012</u>

The following is a schedule by years of future minimum payments required:

9/30/2017	\$ 3,708
9/30/2018	<u>3,399</u>
TOTAL	<u>\$ 7,107</u>