

Life Challenge of Southeastern MI

Financial Statements

December 31, 2017

Richard J. Boyse, CPA, PC

Certified Public Accountant

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Life Challenge of Southeastern MI
17667 Pierson
Detroit, MI 48219

We have reviewed the accompanying financial statements of Life Challenge of Southeastern MI (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying statement of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying

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accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

Richard J. Boyse, CPA, PC
Rochester, MI
September 26, 2018

**Life Challenge of Southeastern MI
Statement of Financial Position**

	December 31, 2017	As of December 31, 2016
Assets		
Current Assets		
Huntington - Main Checking	\$ 181,594.39	\$ 126,075.73
Huntington - Secondary Checking	8,533.04	6,590.83
Petty Cash/Student Cash on Hand	1,794.58	2,293.65
Investments	<u>2,992.00</u>	<u>1,792.00</u>
Total Current Assets	<u>194,914.01</u>	<u>136,752.21</u>
Property and Equipment		
Buildings and Land	1,106,590.43	1,019,931.83
Furnishings & Equipment	337,535.21	310,046.96
Less Accumulated Depreciation	<u>(695,716.23)</u>	<u>(657,025.73)</u>
Net Property and Equipment	<u>748,409.41</u>	<u>672,953.06</u>
Non Current Assets		
Note Receivable - 16754 Braille	900.00	2,700.00
Education Fund Account	<u>103,642.18</u>	<u>87,727.70</u>
Total Non Current Assets	<u>104,542.18</u>	<u>90,427.70</u>
Total Assets	<u>\$ 1,047,865.60</u>	<u>\$ 900,132.97</u>
Liabilities and Net Assets		
Current Liabilities		
Chase Credit Card	\$ 14,993.62	\$ 13,456.12
Payroll Liabilities	3,044.27	2,148.78
Sales Tax Payable	42.69	61.88
Student Funds Holding Account	<u>2,785.75</u>	<u>2,659.97</u>
Total Current Liabilities	<u>20,866.33</u>	<u>18,326.75</u>
Long-Term Liabilities		
Total Long-Term Liabilities	<u>0.00</u>	<u>0.00</u>
Total Liabilities	<u>20,866.33</u>	<u>18,326.75</u>
Net Assets		
Net Assets Without Donor Restrictions	835,026.69	742,746.53
Net Assets With Donor Restrictions	191,972.58	139,059.69
Total Net Assets	<u>1,026,999.27</u>	<u>881,806.22</u>
Total Liabilities and Net Assets	<u>\$ 1,047,865.60</u>	<u>\$ 900,132.97</u>

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**Life Challenge of Southeastern MI
Statement of Activities**

	12 Months Ended December 31, 2017	12 Months Ended December 31, 2016
Changes in Net Assets Without Donor Restrictions:		
Revenue		
Donations - Detroit	\$ 785,504.94	\$ 739,263.53
Donations - Toledo	28,495.88	0.00
Donations - Out of State	8,730.00	0.00
Donations - Flint	62,527.69	34,449.52
Fund Raising Activities	192,541.24	181,785.61
Community Service	42,290.71	18,672.78
Gifts in Kind	239,465.00	233,739.00
Vending Net Income	1,662.36	1,394.69
Induction and Program Fees	89,301.00	97,263.00
Storefront Resale	10,812.82	17,273.54
Miscellaneous Income	5,961.02	4,665.98
Donor-restricted Net Assets Released from Restriction	51,331.99	2,911.01
Total Revenue Without Donor Restrictions	1,518,624.65	1,331,418.66
Expenses		
Program	1,067,403.97	1,013,222.66
General and Administrative	273,070.22	237,288.55
Fundraising	87,062.30	74,918.46
Total Expenses Without Donor Restrictions	1,427,536.49	1,325,429.67
Revenue Less Expenses Without Donor Restrictions	91,088.16	5,988.99
Other Changes in Net Assets Without Donor Restrictions		
Unrealized Security Gain/Loss	1,200.00	400.00
Gain (Loss) on Sale of Asset(s)	(8.00)	(12,686.00)
Total Other Changes	1,192.00	(12,286.00)
Increase (Decrease) in Net Assets Without Donor Restrictions	92,280.16	(6,297.01)
Changes in Net Assets With Donor Restrictions		
Donations - Missions Trips		3,943.00
Donations - Bathroom Upgrade		50,000.00
Donations - Boiler	47,134.40	
Donations - Teen Challenge Lansing	30,686.00	
Donations - 1st Floor Bathroom	15,207.00	
Education Fund Gain or Loss	11,217.48	6,178.64
Net Assets Released From Restrictions	(51,331.99)	(2,911.01)
Increase (Decrease) in Net Assets With Donor Restrictions	52,912.89	57,210.63
Increase (Decrease) in Net Assets	145,193.05	50,913.62

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**Life Challenge of Southeastern MI
Statement of Cash Flows**

	12 Months Ended December 31, 2017
Cash Flows from Operating Activities	
Increase (decrease) in net assets	\$ 145,193.05
Adjustments to reconcile net increase (decrease) to net cash provided by (used in) operating activities:	
Depreciation and Amortization	47,122.50
Net Loss (Gain) on Sale of Assets	8.00
Non-cash Donations of Fixed Assets	(8,950.00)
Non-cash Donations of Investments	(4,697.00)
Decrease (Increase) in Operating Assets:	
Investments	(12,417.48)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	1,663.28
Payroll Taxes Payable	895.49
Sales Tax Payable	(19.19)
Total Adjustments	23,605.60
Net Cash Provided By (Used In) Operating Activities	168,798.65
Cash Flows from Investing Activities	
Note Receivable Repayments	1,800.00
Purchase of Fixed Assets	(115,461.85)
Proceeds from Sales of Fixed Assets	1,825.00
Net Cash Provided By (Used In) Investing Activities	(111,836.85)
Cash Flows from Financing Activities	
Net Cash Provided By (Used In) Financing Activities	0.00
Net Increase (Decrease) In Cash and Cash Equivalents	56,961.80
Beginning Cash and Cash Equivalents	134,960.21
Ending Cash and Cash Equivalents	\$ 191,922.01

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Life Challenge of Southeastern MI
Notes to Financial Statements
December 31, 2017

Nature of Activities and Significant Accounting Policies

Nature of Activities

Life Challenge of Southeastern Michigan ("the Organization") is a one-year Christian-growth program providing residential care for men and women with alcohol, drug, and other life controlling problems. The accompanying financial statements have been prepared on the cash basis of accounting.

Financial Statement Presentation

According to Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-For-Profit Entities, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The net assets of the Organization are classified accordingly depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Contributions

Under SFAS No. 116, Accounting for Contributions Received and Contributions Made, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the absence or existence of any donor restrictions.

Contributed Materials and Services

The Organization received certain donated materials that have not met the requirements for recognition in the financial statements and have not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization at the residential care facilities. The value of the certain donated materials and volunteer services is not disclosed, as no objective basis is available to measure the value of such materials and services.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Under SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or use) in the reporting period in which the income and gains are recognized. Investments as of December 31, 2017 consist entirely of corporate stock and are stated at their estimated fair market value.

Property and Equipment

Buildings, equipment, furniture, and transportation equipment are recorded at cost when purchased. Donations of property and equipment are recorded as support at their estimated fair value and are reported as support without 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 support with donor restriction. Absent donor stipulations regarding how long those donated assets must be maintained, 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. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Depreciation expense for the year ended December 31, 2017 is \$47,122.50.

Life Challenge of Southeastern MI
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Functional Allocation Expenses

The costs of providing program, general and administrative, and fundraising services have been reported on a functional basis in the statements of activities. Costs have been allocated between program, general and administrative, and fundraising using estimates determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different results.

Tax Status

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Although the Organization is granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income" (UBTI). For the year ended December 31, 2017, management has determined that the Organization did not have UBTI, accordingly, no income tax provision is reflected in these financial statements.

Use of Estimates

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

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2017, the most recent statement of financial position presented herein, through September 26, 2018, the date these financial statements were available to be issued. No such significant events or transactions were identified.

Donor Restrictions on Net Assets

Net Assets with donor restrictions as of December 31, 2017 relate to funds that have been contributed for the establishment of an Education Fund for the Organization, two separate funds for replacing a Boiler and Remodeling a 1st Floor bathroom, and funds held for use by Teen Challenge Lansing. The original principal of the Education Fund (\$20,000) is to be held indefinitely, and cannot be used for the purpose of the Fund. The earnings and appreciation of the Fund may only be used for the intended purpose of the fund. As of December 31, 2017, the balance in the donor-restricted Educational Fund is \$98,945.18, the balance of the Boiler replacement fund is \$47,134.40, the balance of the 1st floor bathroom remodel fund is \$15,207, and the net assets being held for Teen Challenge Lansing total \$30,686. Therefore, the total balance of the donor-restricted net assets as of December 31, 2017 is \$191,972.58.

Supplemental Information

**Life Challenge of Southeastern MI
Statement of Changes in Net Assets**

	<u>Net Assets With Donor Restriction</u>	<u>Net Assets Without Donor Restriction</u>	<u>Total Net Assets</u>
Net Assets, January 1, 2016	\$ 81,849.06	\$ 749,043.54	\$ 830,892.60
Change in Net Assets, 2016	57,210.63	(6,297.01)	50,913.62
Net Assets, December 31, 2016	<u>139,059.69</u>	<u>742,746.53</u>	<u>881,806.22</u>
Change in Net Assets, 2017	52,912.89	92,280.16	145,193.05
Net Assets, December 31, 2017	<u>\$ 191,972.58</u>	<u>\$ 835,026.69</u>	<u>\$ 1,026,999.27</u>

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**Life Challenge of Southeastern MI
Statement of Functional Expenses**

	<u>Amount</u>	<u>%Total</u>
Total Expenses	\$ 1,427,536.49	100.00%
Program Expenses		
Advertising	\$ 2,842.88	0.20%
Auto Expense - Program	34,890.17	2.44
Depreciation - Program	38,374.96	2.69
Dues and Subscriptions	1,654.91	0.12
Employee and Student Development - Program	13,521.58	0.95
Insurance - Program	48,605.89	3.40
Printing and Reproduction	13,824.23	0.97
Program Expense	266,339.57	18.66
Repairs and Maintenance - Program	36,493.96	2.56
Salaries and Benefits - Program	461,229.86	32.31
Taxes - Payroll - Program	26,636.39	1.87
Taxes - Property - Program	1,898.11	0.13
Travel	3,834.94	0.27
Utilities - Program	115,924.53	8.12
Total Program Expenses	<u>\$ 1,066,071.98</u>	<u>74.68%</u>
General and Administrative Expenses		
Administrative Expense	\$ 10,220.64	0.72%
Auto Expense - General	5,946.62	0.42
Bank Charges	11,220.38	0.79
Depreciation - General	8,432.55	0.59
Employee Development - General	13,625.42	0.95
Insurance - General	11,139.36	0.78
Fines and Penalties	47.52	0.00
Office Expense	1,918.70	0.13
Legal and Accounting	4,300.00	0.30
Repairs and Maintenance - General	12,857.06	0.90
Salaries and Benefits - General	152,075.12	10.65
Taxes - Payroll - General	8,781.99	0.62
Taxes - Property - General	5,694.32	0.40
Utilities - General	26,810.54	1.88
Total General and Administrative Expenses	<u>\$ 273,070.22</u>	<u>19.13%</u>
Fundraising Expenses		
Depreciation - Fundraising	\$ 314.99	0.02%
Fund Raising Expenses	26,280.16	1.84
Salaries and Benefits - Fundraising	57,164.22	4.00
Taxes - Payroll - Fundraising	3,302.93	0.23
Total Fundraising Expenses	<u>\$ 87,062.30</u>	<u>6.10%</u>
Total Expenses	<u><u>\$ 1,426,204.50</u></u>	<u><u>100.00%</u></u>

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Supplemental Information