

**THE TEEN PROJECT, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**THE TEEN PROJECT, INC.**  
**FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

# **The Teen Project, Inc.**

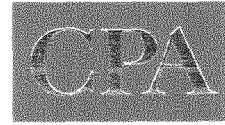
**December 31, 2017**

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**DAVID L. SCARBROUGH, CPA & COMPANY**

*Certified Public Accountant*



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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
The Teen Project, Inc.  
Sun Valley, California

We have audited the accompanying financial statements of The Teen Project, Inc. (nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 The Teen Project, Inc. as of December 31, 2017, 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.

*David L. Scarbrough*  
David L. Scarbrough, CPA & Company  
Santa Ana, California  
July 31, 2018

**The Teen Project, Inc.**  
**Statement of Financial Position**  
**December 31, 2017**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 627,319
Accounts receivable	115,395
Prepaid expense-payroll	37,708
E*Trade stock investments	455
Donated assets held for sale	<u>4,500</u>

Total current assets 785,377

**Fixed Assets**

Furniture and equipment	70,376
Automotive equipment	41,450
Leasehold improvements	628,007
Land	126,000
Building	294,000
Building improvements	<u>137,538</u>
	1,297,371
Less accumulated depreciation	<u>(267,285)</u>
Net book value	<u>1,030,086</u>

**Other Assets**

Security deposits	<u>26,140</u>
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**Total assets** \$ 1,841,603

See independent auditor's report and notes to financial statements.

**The Teen Project, Inc.**  
**Statement of Financial Position**  
**December 31, 2017**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 135,672
Notes payable	100,000
Current portion of mortgage payable	<u>257,231</u>

Total current liabilities 492,903

**Long-term liabilities**

Mortgage payable, net of current portion (Note 5)	-
Note payable-City of Los Angeles (Note 6)	<u>125,000</u>

Total long-term liabilities 125,000

Total liabilities 617,903

**Net assets**

Unrestricted	1,223,700
Temporarily restricted	<u>-</u>

Total net assets 1,223,700

**Total liabilities and net assets** \$ 1,841,603

See independent auditor's report and notes to financial statements.

**The Teen Project, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>Change in unrestricted net assets:</b>			
<b>Revenue and Support</b>			
Program revenue	\$ 451,388	\$ -	\$ 451,388
Corporate & general donations	549,704	-	549,704
Foundation grants	373,850	-	373,850
Insurance reimbursements	391,105	-	391,105
Resident support	28,568	-	28,568
Board care support	160,857	-	160,857
Fundraising revenue	87,339	-	87,339
Debt forgiveness	100,000	-	100,000
Miscellaneous income	1,999	-	1,999
In-kind & non-cash donations	96,005	-	96,005
Net assets released from program restrictions	<u>45,000</u>	<u>(45,000)</u>	<u>-</u>
<b>Total Revenue and Support</b>	<u>2,285,815</u>	<u>(45,000)</u>	<u>2,240,815</u>
<b>Functional expenses</b>			
Program services	2,060,396	-	2,060,396
Supporting services:			
Management and general	47,510	-	47,510
Fundraising expenses	<u>108,061</u>	<u>-</u>	<u>108,061</u>
<b>Total functional expenses</b>	<u>2,215,967</u>	<u>-</u>	<u>2,215,967</u>
<b>Increase (Decrease) in net assets</b>	69,848	(45,000)	24,848
Net assets at beginning of year	<u>1,153,852</u>	<u>45,000</u>	<u>1,198,852</u>
<b>Net assets at end of year</b>	<u>\$ 1,223,700</u>	<u>\$ -</u>	<u>\$ 1,223,700</u>

See independent auditor's report and notes to financial statements.

**The Teen Project, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2017**

	<b>Program Services</b>	<b>Management &amp; General</b>	<b>Fundraising Expenses</b>	<b>Total Expenses</b>
<b>Operating Expenses:</b>				
Salaries-executive director	\$ 112,081	\$ 25,865	\$ 34,487	\$ 172,433
Lake Forest College Home	49,679	-	66,698	116,377
Venice PAD Resource Center	7,953	-	-	7,953
Freehab costs	1,725,993	-	-	1,725,993
Bill pay-accounting	5,457	287	-	5,744
Computer services	7,179	-	-	7,179
Depreciation expense	45,980	2,420	-	48,400
Employee benefits	5,163	1,192	1,589	7,944
Grant writer expense	17,125	-	-	17,125
Insurance-general	11,533	607	-	12,140
Insurance-workers comp.	9,738	2,247	2,996	14,981
Marketing	41,896	-	-	41,896
Office expense	1,376	1,376	-	2,752
Other expenses	2,838	2,838	-	5,676
Payroll taxes	7,444	1,718	2,291	11,453
Professional fees	8,961	8,960	-	17,921
<b>Total operating expenses</b>	<b><u>\$ 2,060,396</u></b>	<b><u>\$ 47,510</u></b>	<b><u>\$ 108,061</u></b>	<b><u>\$ 2,215,967</u></b>

See independent auditor's report and notes to financial statements.



**The Teen Project, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2017**

**Cash flows from operating activities:**

<b>Increase (decrease) in net assets</b>	\$ 24,848
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	48,400
Donated equipment	(9,319)
(Increase) decrease in operating assets:	
Accounts receivable	(14,849)
Prepaid expenses	(37,708)
Increase (decrease) in operating liabilities:	
Accounts payable	100,884
Net cash provided (used) by operating activities	<u>112,256</u>

**Cash flows from investing activities:**

Increase in leasehold improvements & equipment	<u>(19,758)</u>
Net cash flows from investing activities	<u>(19,758)</u>

**Cash flows from financing activities:**

Repayment of mortgage payable	(7,118)
Forgiveness of debt	(100,000)
Increase in notes payable	<u>100,000</u>
Net cash provided (used) by financing activities	<u>(7,118)</u>

Net increase (decrease) in cash and cash equivalents 85,380

Cash and cash equivalents at beginning of year 541,939

**Cash and cash equivalents at end of year** \$ 627,319

**Supplementary Information:**

Interest Paid year to date \$ 14,048

See independent auditor's report and notes to financial statements.

**The Teen Project, Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**

**1. ORGANIZATION'S NATURE OF ACTIVITIES**

The Teen Project, Inc. was founded in 2007 and is a privately funded Nonprofit California Corporation. It provides housing, education, sober living and mentoring to youth ages 18 to 24-year-old (Transitional Age Youth) aging out of the foster care system to homelessness. The Teen Project, Inc. seeks to aid these youths exiting foster care and at risk homeless youth with all the resources and support of an intact family allowing the greatest opportunity for success and a smooth transition to adulthood. In May 2014, the Organization acquired Freehab, Inc. a 501(c)(3) non-for-profit organization with a 74-bed Licensed Drug Treatment Rehabilitation Center with an onsite vocational school. The agreement called for Freehab, Inc. to be dissolved and transfer all of its assets and liabilities to The Teen Project. The Teen Project, Inc. also acquired Freehab, Inc.'s trademark, any intellectual property, all the organizations pending grants, pending grant requests and any pending donations. The business acquisition was accounted using the Acquisition Method.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting.** The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

**Basis of Presentation.** The Teen Project, Inc. reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted, a description of which is as follows:

**A. Unrestricted Funds**

Unrestricted funds represent revenue and contributions and expenditures related to the operation and management of The Teen Project, Inc. primary programs and support services. All public support and revenues are considered to be available for unrestricted use unless specifically restricted by the donor or grantor.

**B. Temporarily Restricted Funds**

Temporarily restricted fund is utilized to record resources received that are temporarily restricted as to use by the Board of Directors or by the donor or grantor. When the restriction expires, the net assets of this fund are reclassified to unrestricted net assets and are reported in the Statement of Activities. The Organization had no temporary restricted net assets at December 31, 2017.

**The Teen Project, Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**

**C. Permanently Restricted Funds**

Permanently restricted net assets are utilized to record resources received that are permanently restricted as to use by donor or grantor. The Teen Project, Inc. has no permanently restricted net assets at December 31, 2017.

**Property and Equipment.** Property and equipment are carried at cost or, if donated, they are recorded at fair market value at date of donation. Depreciation is provided on the straight-line and declining methods over estimated useful lives of seven years for furniture and equipment and thirty-nine years for buildings and building improvements.

**Cash and Equivalents.** For financial statement purposes, cash and cash equivalents consist of cash and investments with an original maturity of three months or less.

**Contributions.** The Teen Project, Inc. records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be for unrestricted use unless specifically restricted by the donor. Contributed equipment is recorded at its fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Accordingly, actual results may differ from the estimates under different assumptions or conditions.

**Functional Allocation of Expenses.** The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting service classifications based on estimates made by management.

**3. CONCENTRATION OF RISK**

The organization maintains its bank accounts at various financial institutions, the accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$ 250,000. The cash balance at one of these financial institutions exceeds the federally insured limits. The cash balances at that financial institutions totaled \$ 627,319 at December 31, 2017.

**The Teen Project, Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**

**4. MORTGAGE PAYABLE-FARMERS & MERCHANTS BANK**

5.50% 1ST Trust deed payable to Farmers & Merchants Bank, secured by land and building in Lake Forest, California with monthly payments of \$ 1,766 including principal and interest, and continuing until February 14, 2018, with any unpaid principal and interest due at that time.

**5. NOTE PAYABLE-CITY OF LOS ANGELES**

Note Payable dated November 1, 2013 with the City of Los Angeles for \$ 500,000 is made in connection with certain funding agreement solely for the habitation of an alcohol detox and recovery residential center. This is a service payback loan. The amounts due under the promissory note are due and payable only in the event that the borrower fails to meet its service repayment obligations set forth in the funding agreement. All non-monetary payments made by the borrower as they relate to the funding agreement and its promissory note shall be in the form of service payment. Commencing on the project completion date of the rehabilitation of the property, the debt service period shall be five years. The borrower shall receive a repayment credit or forgiveness in an amount not to exceed \$ 100,000 per year of satisfactory service. To receive the repayment credit, the borrower must submit a yearly report showing the amount and type of services which the borrower has provided, including the approximate number of clients it has serviced and the general level of income of such clients. The City makes an independent determination based on written evidence that the borrower did in fact provide full services and will allow the credit. The outstanding balance at December 31, 2017 was \$ 125,000.

**6. INCOME TAXES**

The Teen Project, Inc. is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and comparable statues of California, except for unrelated business income. The organization does not have any taxable unrelated business income for the twelve months ended December 31, 2017 and accordingly, no provision for taxes has been made.

The organization's federal exempt tax returns for the years ended December 31, 2014, 2015 and 2016 are subject to examination by the Internal Revenue Service, generally for three years after they are filed. Management has evaluated the tax positions reflected in the organization's tax filings and does not believe that any material uncertain tax position exists.

**The Teen Project, Inc.**  
**Notes to Financial Statements**  
**December 31, 2017**

**7. LEASE OBLIGATIONS**

The organization rents facilities in Sun Valley, CA. One lease expires in January 31, 2019. The other Sunland property expires November 30, 2025 and has three 5-year options to extend the lease through November 30, 2040. The rent expense for the year was \$ 225,653. The minimum annual obligations under the leases for the next six years ending December 31 are as follows:

2018	\$ 250,368
2019	118,732
2020	101,868
2021	101,868
2022	101,868
After	<u>297,115</u>
Total	<u>\$ 971,819</u>

**8. EMPLOYMENT AGREEMENT**

The Board of Directors have entered into a multi -year employment agreement through December 31, 2020 with Lauri Burns, the President and CEO of the organization.

**9. SUBSEQUENT EVENTS**

The management of the organization has reviewed the results of operations for the period from the twelve months ended December 31, 2017 through July 31, 2018 the date the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements. Some subsequent events disclosed are the following:

The mortgage with Farmers & Merchants Bank was renewed for another 5 years. The Organization has been awarded a \$ 2.6 million contract by the Los Angeles Public Health Agency and Substance Abuse Prevention & Control. The Teen Project, Inc. was also awarded a \$ 2.3 million contract with the Los Angeles County Department of Mental Health for a Crisis Residential Treatment Program (CRTP) to construct a facility that will house 16 CRPT beds and provide CRPT services at the facility. Projected opening date is set for December 2018.