Minnesota Teen Challenge, Inc. and Subsidiary
d.b.a. Minnesota Adult and Teen Challenge and Subsidiary

Consolidated Financial Statements

December 31, 2017
with Comparative Totals for 2016

bergan KDV
CPAS | ADVISORS

Minnesota Teen Challenge, Inc. and Subsidiary
d.b.a. Minnesota Adult and Teen Challenge and Subsidiary
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Independent Auditor's Report

To the Board of Directors
Minnesota Teen Challenge, Inc. and Subsidiary
d.b.a. Minnesota Adult and Teen Challenge and Subsidiary
Minneapolis, Minnesota

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Minnesota Teen Challenge, Inc. and Subsidiary d.b.a. Minnesota Adult and Teen Challenge and Subsidiary (a Nonprofit Organization) which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and related notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated financial statements.

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

BerganKDV, Ltd.
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Opinion
In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Minnesota Teen Challenge, Inc. and Subsidiary d.b.a. Minnesota Adult and Teen Challenge and Subsidiary 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.

Report on Summarized Comparative Information
We have previously audited Minnesota Teen Challenge, Inc. and Subsidiary d.b.a. Minnesota Adult and Teen Challenge and Subsidiary's 2016 consolidated financial statements, and our report dated April 20, 2017, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited 2016 consolidated financial statements from which it has been derived.

BerganKDV, Ltd.

St. Cloud, Minnesota
April 19, 2018

CONSOLIDATED FINANCIAL STATEMENTS

Minnesota Teen Challenge, Inc. and Subsidiary
d.b.a. Minnesota Adult and Teen Challenge, Inc. and Subsidiary
Consolidated Statement of Financial Position
As of December 31, 2017
(with Comparative Totals for 2016)

	Total	
	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 13,674,376	$ 6,178,511
Certificates of deposit	-	3,610,601
Investment	119,040	-
Accounts receivable, net	3,367,833	3,364,308
Unconditional promises to give, net	832,349	1,082,917
Prepaid expenses	233,973	219,514
Total current assets	18,227,571	14,455,851
Property and equipment, net	35,156,536	28,299,006
Noncurrent assets		
Investment	-	32,530
Cash restricted for long-term purposes	2,731,513	5,097,891
Notes receivable	259,511	250,000
Unconditional promises to give, net	1,633,730	1,808,384
Total noncurrent assets	4,624,754	7,188,805
Total assets	$ 58,008,861	$ 49,943,662
Liabilities and Net Assets		
Current liabilities		
Current maturities of capital lease obligation	$ 103,615	$ 26,219
Accounts payable	792,639	743,617
Accrued payroll taxes and benefits	272,043	209,281
Accrued salaries and vacation	951,436	1,222,460
Deferred revenue and deposits	40,492	48,864
Total current liabilities	2,160,225	2,250,441
Noncurrent liabilities		
Capital lease obligation, net of current maturities	380,461	108,095
Total liabilities	2,540,686	2,358,536
Net assets		
Unrestricted		
Undesignated	14,456,137	10,552,673
Board designated	1,118,341	1,115,995
Invested in property and equipment	35,156,536	28,299,006
Total unrestricted	50,731,014	39,967,674
Temporarily restricted	4,725,161	7,605,452
Permanently restricted	12,000	12,000
Total net assets	55,468,175	47,585,126
Total liabilities and net assets	$ 58,008,861	$ 49,943,662

See notes to consolidated financial statements.

Minnesota Teen Challenge, Inc. and Subsidiary
d.b.a. Minnesota Adult and Teen Challenge, Inc. and Subsidiary
Consolidated Statement of Activities
For the Year Ended December 31, 2017
(with Comparative Totals For 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Public Support and Revenues					
Public support					
Contributions	$ 6,060,722	$ 4,119,696	$ -	$ 10,180,418	$ 10,360,137
Grants	853,922	-	-	853,922	1,112,081
Total public support	6,914,644	4,119,696	-	11,034,340	11,472,218
Special events					
Contributions and revenues	2,348,342	-	-	2,348,342	2,290,114
Less direct costs	(303,829)	-	-	(303,829)	(398,787)
Net revenues from special events	2,044,513	-	-	2,044,513	1,891,327
Program revenue					
Group residential housing	7,857,876	-	-	7,857,876	7,457,292
Tuition, lodging, and fees	992,637	-	-	992,637	1,175,414
Licensed program revenue, net of contractual allowances and discounts	20,164,557	-	-	20,164,557	15,476,981
Less provision for bad debts	(329,415)	-	-	(329,415)	(551,091)
Total program revenue	28,685,655	-	-	28,685,655	23,558,596
Other revenue					
Investment income	21,282	25	-	21,307	14,601
Miscellaneous	154,159	-	-	154,159	88,205
Rental income	197,238	-	-	197,238	179,809
Loss on disposal of assets	(1,205)	-	-	(1,205)	(4,925)
Total other revenue	371,474	25	-	371,499	277,690
Net assets released from restrictions satisfaction of time and purpose restrictions	7,000,012	(7,000,012)	-	-	-
Total public support and revenues	45,016,298	(2,880,291)	-	42,136,007	37,199,831
Expenses					
Program services	29,022,421	-	-	29,022,421	24,546,368
Management and general	4,007,552	-	-	4,007,552	4,008,022
Fundraising	1,222,985	-	-	1,222,985	1,446,017
Total expenses	34,252,958	-	-	34,252,958	30,000,407
Change in net assets	10,763,340	(2,880,291)	-	7,883,049	7,199,424
Net Assets					
Beginning of year	39,967,674	7,605,452	12,000	47,585,126	40,385,702
End of year	$ 50,731,014	$ 4,725,161	$ 12,000	$ 55,468,175	$ 47,585,126

Minnesota Teen Challenge, Inc. and Subsidiary
d.b.a. Minnesota Adult and Teen Challenge, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2017
(with Comparative Totals for 2016)

	Program Services	Management and General	Fundraising	Total 2017	Total 2016
Salaries and related taxes					
Salaries and benefits	$ 19,410,650	$ 2,378,886	$ 380,888	$ 22,170,424	$ 19,471,344
Payroll taxes	1,228,202	150,664	23,960	1,402,826	1,214,587
Total salaries and related benefits and taxes	20,638,852	2,529,550	404,848	23,573,250	20,685,931
Expenses					
Insurance	497,965	68,762	20,981	587,708	535,121
Utilities	674,015	93,072	28,399	795,486	708,776
Supplies	287,595	39,713	12,117	339,425	342,414
Food service expenses	1,824,156	-	-	1,824,156	1,552,169
Maintenance and repairs	233,153	32,195	9,824	275,172	248,652
Professional services	622,329	85,935	26,221	734,485	557,953
Academy and programs	868,532	-	-	868,532	768,237
Promotions	122,411	81,607	204,018	408,036	319,725
Special events - galas	121,580	81,053	202,633	405,266	363,236
Advertising	216,989	271,236	54,247	542,472	465,793
Interest expense	13,622	1,881	574	16,077	2,590
Vehicle gas and mileage	153,072	21,137	6,450	180,659	153,697
Miscellaneous	153,489	21,195	6,467	181,151	141,479
Data communications	271,945	37,552	11,458	320,955	301,759
Vehicle repairs and maintenance	103,673	14,316	4,368	122,357	119,329
Dues and licenses	47,863	6,609	2,017	56,489	72,493
Newsletters and mailings	41,611	34,676	62,416	138,703	137,564
Donations - miscellaneous	-	113,879	-	113,879	112,237
Postage and printing	80,872	26,957	26,957	134,786	123,254
Office expense	58,831	8,124	2,479	69,434	79,184
Property taxes	43,778	10,945	-	54,723	46,319
Rent	437,764	218,882	72,961	729,607	671,947
Seminars/conferences	45,122	6,229	1,900	53,251	19,479
Total expenses before depreciation	27,559,219	3,805,505	1,161,335	32,526,059	28,529,338
Depreciation	1,463,202	202,047	61,650	1,726,899	1,471,069
Total expenses	$ 29,022,421	$ 4,007,552	$ 1,222,985	$ 34,252,958	$ 30,000,407

See notes to consolidated financial statements.

Minnesota Teen Challenge, Inc. and Subsidiary
d.b.a. Minnesota Adult and Teen Challenge, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2017
(with Comparative Totals for 2016)

	Total	
	2017	2016
Cash Flows - Operating Activities		
Change in net assets	$ 7,883,049	$ 7,199,424
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Depreciation	1,726,899	1,471,069
Change in allowance for doubtful accounts and contractual adjustments	986,353	356,426
Change in allowance for doubtful pledges	45,886	-
Loss on disposal of property and equipment	1,205	4,925
Non-cash contributions of property and equipment	(323,186)	(129,745)
Non-cash contribution of investments	(119,040)	(32,530)
Amortization of discount on unconditional promises to give	101,456	82,150
Change in operating assets and liabilities		
Accounts receivable	(989,878)	(1,446,143)
Unconditional promises to give	277,880	(410,427)
Prepaid expenses	(14,459)	(90,608)
Accounts payable	(490,633)	(948,404)
Accrued payroll taxes and benefits	62,762	121,174
Accrued salaries and vacation	(271,024)	211,871
Deferred revenue and deposits	(8,372)	(46,027)
Cash restricted for long-term purposes	(2,085,981)	(4,273,093)
Net cash flows - operating activities	6,782,917	2,070,062
Cash Flows - Investing Activities		
Certificates of deposit matured	3,610,601	1,096,987
Proceeds from disposal of assets	10,200	-
Proceeds from sale of investments	32,530	15,357
Advances on note receivable	(9,511)	-
Change in cash restricted for long-term purposes	2,366,378	(1,371,888)
Purchases of property and equipment	(7,322,615)	(4,159,275)
Net cash flows - investing activities	(1,312,417)	(4,418,819)
Cash Flows - Financing Activities		
Principal payments on capital lease obligation	(60,616)	(9,800)
Collections of contributions restricted for long-term purposes	2,085,981	4,273,093
Net cash flows - financing activities	2,025,365	4,263,293
Net change in cash and cash equivalents	7,495,865	1,914,536
Cash and Cash Equivalents		
Beginning of year	6,178,511	4,263,975
End of year	$ 13,674,376	$ 6,178,511

See notes to consolidated financial statements.

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NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Minnesota Teen Challenge, Inc. d.b.a. Minnesota Adult and Teen Challenge, Inc. was organized under Chapter 317 of the *Minnesota Statutes* and is approved as a tax exempt public charity under Section 501(c)(3) of the Internal Revenue Code (IRC). For almost 30 years, Minnesota Adult and Teen Challenge, Inc. has been restoring hope to people of all ages struggling with drug and alcohol addiction. Along with its effective and affordable shorter-term programs, and its distinctive long-term faith-based recovery program, Minnesota Adult and Teen Challenge, Inc. also has outpatient services, mental health services and prevention presentations and extensive transitional/aftercare services. All these programs allow Minnesota Adult and Teen Challenge, Inc. to serve people with a broad spectrum of addiction issues. Minnesota Adult and Teen Challenge, Inc. truly helps clients gain hope, healing, and freedom in their lives.

Minnesota Teen Challenge Academy (the "Academy") was organized under Chapter 317 of the *Minnesota Statutes* and is approved as a tax exempt public charity under Section 501(c)(3) of the Internal Revenue Code.

Principles of Consolidation

The consolidated financial statements include the operations of Minnesota Teen Challenge, Inc. d.b.a. Minnesota Adult and Teen Challenge, Inc. and its wholly owned subsidiary Minnesota Teen Challenge Academy collectively referred to as the "Organization." All material intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The Organization uses the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred.

Consolidated Financial Statement Presentation

The net assets and revenues of the Organization are reported based upon net asset restrictions and the purposes for which resources are to be spent and the means by which spending activities are controlled. Net asset restrictions are categorized as follows:

Unrestricted

Accounts for all financial resources which are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Resources may be used at the discretion of the Board of Directors.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation (Continued)

Temporarily Restricted

Accounts for (a) contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Board of Directors pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the Organization pursuant to those stipulations.

Permanently Restricted

Accounts for all financial resources which include a donor-imposed restriction that stipulates the resources be maintained permanently, but permits the Board of Directors to use or expend part or all of the income derived from the donated assets.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Information

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for 2016, from which the summarized information was derived.

Cash and Cash Equivalents

The Organization considers cash in financial institutions and all highly liquid investments purchased with a maturity of three months or less to be cash and cash equivalents. Client cash totaling $41,039 is included in cash and cash equivalents in the statement of financial position but is not available for general use by the Organization as of December 31, 2017.

Cash Restricted for Long-term Purposes

The Organization considers cash and cash equivalents collected for the purposes of capital projects in future years and board and donor designated endowment funds to be cash restricted for long-term purposes.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certificates of Deposit

Certificates of deposit are carried at cost. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified under current assets. Certificates of deposit with remaining maturities greater than one year are classified as noncurrent assets.

Accounts Receivable

Accounts receivable represents amounts due for program services. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. The allowance for uncollectable receivables and contractual adjustments was $2,471,096 as of December 31, 2017.

In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to clients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay clients, the Organization records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many clients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rate and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance of doubtful accounts.

The Organization has an allowance for doubtful accounts of 70% of self-pay accounts receivable as of December 31, 2017. The Organization does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured clients in accordance with the Organization's policy and/or implicit pricing concessions provided to uninsured clients. The Organization determines its estimates of contractual allowances and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of clients.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Organization. Management provides for probable uncollectible amounts through a provision for an allowance for uncollectible promises to give.

Unconditional promises to give, due in the next year, are recorded at their net realizable value. Unconditional promises to give, due in subsequent years, are reported at the present value of their net realizable value, using a risk-free interest rate of 5% applicable to the years in which the promises to give are to be received. Amortization of the discount is included within contributions on the consolidated statement of activities.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Property and Equipment

Property and equipment are recorded at cost or estimated fair market value at the time of donation and are being depreciated over their estimated useful lives using the straight-line method. Purchases of and donated assets in excess of $1,000 are capitalized, amounts less than $1,000 may be capitalized based on management's discretion. Useful lives range from 15 to 40 years for buildings and leasehold improvements and 3 to 20 years for equipment and vehicles. Depreciation for 2017 was $1,726,899. Repairs and maintenance items are charged to expense as incurred.

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. The Organization has determined that no impairment existed at December 31, 2017.

Deferred Revenue

Deferred revenue represents the Organization's liability for funds collected in advance of services rendered.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

The Organization reports certain restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service unless the donor stipulated otherwise. All other contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

A number of volunteers have donated time in the Organization's program services and in its fundraising campaigns. However, no amounts have been reflected in the consolidated financial statements for donated services since no objective basis is available to measure the value of such services. In 2017, the Organization received $276,515 in contributed services in the form of advertising.

Revenue Recognition

Grant and program revenues are recognized in the period the services are provided.

Program Revenues

The Organization presents the provision for bad debts on the consolidated statement of activities as a reduction to program revenues in accordance with Financial Accounting Standards Board Topic 954, Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.

The Organization has a charity care policy for licensed health care services that are provided but are never expected to result in cash flows. Charity care is provided to a client with demonstrated inability to pay based upon established income and asset guidelines. The Organization does not receive any funds to subsidize charity services provided.

Performance Indicator

The Organization considers the number of clients served as the Organization's operations performance indicator. This performance indicator has a direct impact on the Organization's unrestricted net assets.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost Allocation

The Organization uses a cost allocation plan to allocate costs that cannot be identified to one program, such as depreciation, utilities, vehicle expenses, and data communications. Depreciation and utilities are allocated by square footage for each program, vehicle expenses are allocated based on passenger capacity for vehicles used for each program, and data communications are allocated by the number of computers and telephones used by that program. Other costs are allocated as detailed in the Organization's cost allocation plan.

Functional Allocation of Expenses

The costs of providing the program and supporting services have been summarized on a functional basis in the consolidated statement of activities and consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Program expenses as presented on the consolidated statement of functional expenses are further broken down as follows:

Long-term program	$ 16,617,106
Short-term program	10,560,287
Transitional housing	1,453,358
Other	391,670
Total program expenses	$ 29,022,421

Advertising

The Organization's policy is to expense advertising costs as they are incurred. During 2017, the Organization incurred advertising costs totaling $542,472.

Tax Status

Minnesota Teen Challenge, Inc. and Minnesota Teen Challenge Academy are both exempt from income taxes under Section 501(c)(3) of the IRC and are also exempt from Minnesota franchise and income tax.

The Organization is required to assess whether any uncertain tax positions exist and if there should be recognition of a related benefit or liability in the consolidated financial statements. The Organization has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Pronouncements

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new guidance will require all leases to be recorded as assets and liabilities on the balance sheet. This update would require capitalization of the "right to use" an asset and recognition of an obligation for future lease payments for most leases currently classified as operating leases. Other leases currently classified as capital leases will be referred to as financing leases and will continue to be recorded as assets and liabilities in a similar manner. This update is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard will affect companies that enter into contracts with customers and provides a five step process for determining when revenue should be recognized to match the transfer of goods or services. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date one year making it effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its financial statements.

Presentation of Financial Statements of Not-For-Profit Entities

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities (Topic 958). This update does not have an impact on recognition or measurement of assets, liabilities, net assets, revenues or expenses, it instead improves the presentation of financial statements of not-for-profit entities. This standard reduces the net asset classification from three to two; net assets with and without donor restrictions. In addition, this update expands disclosures about liquidity and financial performance of the not-for-profit entity. This update is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its financial statements.

Subsequent Events

The Organization has evaluated subsequent events through April 19, 2018, the date which the consolidated financial statements were available to be issued.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Receivable in	
Less than one year	$ 878,235
One to five years	1,470,610
More than five years	582,240
Total	2,931,085
Unamortized discount to present value	(419,120)
Allowance for doubtful promises to give	(45,886)
Total unconditional promises to give, net	$ 2,466,079
Current unconditional promises to give, net	$ 832,349
Noncurrent unconditional promises to give, net	1,633,730
Total unconditional promises to give, net	$ 2,466,079

NOTE 3 – FAIR MARKET MEASUREMENTS

The Organization uses a fair value hierarchy established by accounting principles generally accepted in the United States of America that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset's or liability's fair value measurement level is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value:

Unconditional promises to give – The fair value is measured using a present value technique that estimates a discount market interest rate assumption.

Donated investments – The fair value of the donated investments is based on quoted market prices.

Donated property and equipment – The fair value of the donated property and equipment is based on management's estimate of fair market value, considering fair values of similar type items.

NOTE 3 – FAIR MARKET MEASUREMENTS (CONTINUED)

Fair values of assets measured on a recurring basis are as follows:

Description	Level 1	Level 2	Level 3
December 31, 2017			
Unconditional promises to give less current portion	$ -	$ 1,633,730	$ -

Fair values of assets measured on a non-recurring basis are as follows:

Description	Level 1	Level 2	Level 3
December 31, 2017			
Donated investments	$ 119,040	$ -	$ -
Donated property and equipment	-	-	323,186

Gains and losses (realized and unrealized) are included in changes in net assets.

NOTE 4 – PROPERTY AND EQUIPMENT

The Organization's investment in property and equipment is as follows:

Land and land improvements	$ 3,132,537
Buildings and building improvements	32,769,126
Furniture and equipment	6,684,648
Vehicles	1,659,102
Construction in progress and equipment deposits	431,897
	44,677,310
Less accumulated depreciation	(9,520,774)
Property and equipment, net	$ 35,156,536

NOTE 5 – NOTES RECEIVABLE

In July 2010, the Organization loaned $250,000 to Hope Academy, Inc., a non-profit tax-exempt charity. The promissory note bears interest at 2.35% payable annually; however, all interest shall be forgiven under a gift agreement entered with Hope Academy, Inc. The entire principal balance is due in a balloon payment on July 7, 2019. The promissory note is secured by a mortgage on the real estate. In April 2017, the Organization loaned $11,000 to an unrelated party. The note bears no interest and calls for periodic payments. The note is expected to be paid in full by December 31, 2020. The outstanding balance at December 31, 2017 was $9,511.

NOTE 6 – LINE OF CREDIT

The Organization has a $400,000 revolving line of credit with a bank through December 2018. Interest is payable monthly at a percentage equal to 2.75% in excess of the LIBOR Index. Borrowings under the agreement are secured by deposits of Organization held with the lender. There was no outstanding balance at December 31, 2017. The revolving line of credit also requires the maintenance of certain financial covenants. Management is not aware of any violations of these loan covenants at December 31, 2017.

NOTE 7 – CAPITAL LEASE OBLIGATIONS

The Organization has agreements classified as a capital leases for equipment. One lease expires August 2021 and the other June 2022. The assets and liabilities under the capital leases are recorded fair value.

Minimum future lease payments under the capital leases for the years ended December 31 are as follows:

2018	$ 125,840
2019	125,840
2020	125,840
2021	116,203
2022	46,401
	540,124
Less amount representing interest	(56,048)
Total minimum future lease payments	484,076
Less current maturites	(103,615)
Total capital lease, less current maturities	$ 380,461

The assets are being amortized over the lesser of the estimated economic useful lives or the lease term. Amortization under the capital leases included in depreciation expense for 2017 was $76,700.

Equipment	$ 554,492
Less accumulated amortization	(76,700)
Net equipment under capital lease	$ 477,792

NOTE 8 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

Purpose restrictions	
Scherber Activity Center	$ 1,506,981
Rochester Women's Center Startup Fund	94,166
Teen Boys Scholarship Fund	168,247
Media Production Materials	38,374
Teen Boys Recreational Fund	15,192
Benevolence Fund	31,877
Video Production	46,800
TCLI Scholarship Fund	23,861
Audio Production Designated Funds	23,396
Women's Recreational Fund	16,337
Student Assistance Fund	17,000
Medical Special Needs	15,506
Aftercare	22,227
Olgahart Education and Training	13,734
Rochester Men's Recreational Fund	11,305
Women with Children Brainerd Start Up	10,480
Crown College Scholarship Fund	8,663
Other	194,936
Time restrictions	
Promises to give receivable	2,466,079
Total temporarily restricted net assets	$ 4,725,161

Permanently restricted net assets are as follows:

Teen program scholarships	$ 12,000
Total permanently restricted net assets	$ 12,000

NOTE 9 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors are as follows:

Purpose restrictions released	
Rochester Women's Center Startup Fund	$ 5,850,724
Scherber Activity Center	395,336
Lakeside Beach Project	193,138
Teen Boys Scholarship Fund	151,815
Grace Manor Furnishings Grant	27,157
Teen Boys Recreational Fund	13,623
Benevolence Fund	7,888
Media Production Materials	14,045
Aftercare	8,549
Other	45,719
Time restrictions released	
Promises to give	292,018
Total net assets released from restrictions	$ 7,000,012

NOTE 10 – PROGRAM REVENUE

The Organization recognizes client service revenue associated with services provided to clients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured clients, the Organization recognizes revenue on the basis of its standard rate for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured will be unable or unwilling to pay for the services provided. The Organization records a provision for bad debts related to uninsured clients in the period the services are provided. Client service revenue, net of contractual allowances and discounts, is as follows:

	Third Party Payors	Self-pay	Less provision for bad debt	Total
Client service revenue (net of contractual allowances and discounts)	$ 27,595,197	$ 1,419,873	$ (329,415)	$ 28,685,655

NOTE 11 – OPERATING LEASES

The Organization leases space within a building and two houses to conduct the rehabilitation program. The lease is a "triple-net-lease" requiring annual rent of $277,260 through the lease expiration date of December 31, 2025.

The Organization also leases space within a building for operating programs which ends on January 15, 2041. The lease is cancellable, requiring an 18 month termination notice. The lease requires annual rent of $1 plus operating costs estimated to be $284,127 per year. In addition, the Organization is required to pay $0.88 per square foot rented per year towards a reserve for capital improvements, which is estimated to be $56,586 per year.

The Organization also leases a facility in Duluth, Minnesota for operating programs. Monthly lease payments are $5,143 with a monthly rent increase of 2% per year through the lease expiration in December 2018.

Total rent expense for 2017 was $729,607.

Future minimum lease payments under the facility leases, assuming no early termination clauses are exercised, are approximately as follows for the years ending December 31:

2018	$ 681,000
2019	618,000
2020	618,000
2021	618,000
2022	618,000
Thereafter	6,964,000
Total future minimum lease payments	$ 10,117,000

NOTE 12 – RETIREMENT PLAN

The Organization contributes to a retirement plan for eligible employees. The plan provides for a discretionary employer match of employee deferrals. For 2017 eligible employees received a match of up to 3% of employee compensation resulting in an expense to the Organization in the amount of $196,539.

NOTE 13 – CONCENTRATIONS

Cash and Cash Equivalents

The Organization places its cash with high credit quality financial institutions. At times, the amount on deposit may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Organization has not experienced any losses from such deposits.

The Organization has cash equivalents of $764,298 as of December 31, 2017, invested in a loan fund certificate program which are payable upon demand. These funds are not FDIC or Securities Investor Protection Corporation (SIPC) insured.

Accounts Receivable

Approximately 18% of the Organization's total revenue is attributed to the group residential housing program, predominately funded by county sources.

NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash investing and financing activities	
Purchases of property and equipment included in accounts payable	$ 288,422
Purchases of equipment included in capital lease	$ 410,378
Donated property and equipment	$ 323,186
Cash paid for interest	$ 16,077

NOTE 15 – RELATED PARTY TRANSACTIONS

The Organization received $849,500 of contributions from related parties during 2017.

NOTE 16 – CONTINGENCY

The Organization is subject to claims arising in the normal course of operations. While it is not feasible to determine the outcomes of any of these claims, it is the opinion of management that their outcomes will not have a material effect on the financial position or activities of the Organization.

NOTE 17 – COMMITMENT

During 2017, the Organization contracted for the construction of the Scherber Activity Center and was finishing the construction of the Rochester Women's facility. At year-end, the total outstanding construction contracts totaled $1,690,163.

	Project Authorization	Work Expended	12/31/2017 Commitment
Rochester Women's Facility	$ 6,106,542	$ 6,101,072	$ 5,470
Scherber Activity Center	$ 1,981,218	$ 296,525	$ 1,684,693

NOTE 18 – ENDOWMENT INVESTMENT AND SPENDING POLICIES

The Organization's endowment consists of funds established for a variety of purposes, including the Teen Program Scholarships and the Board Designated Endowment. The Board of Directors had designated $1,000,000 of unrestricted net assets as a general endowment fund to support the mission of the Organization. Since the amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets. The Organization has adopted an investment policy for endowment assets that is expected to provide a predictable stream of funding to operations and programs while seeking to maintain the purchasing power of the endowment assets; the Organization will be working on developing a spending policy. The Organization expects the spending policy when developed and investment policy will work together to achieve this objective.

Interpretation of Relevant Law

The Board of Directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the donor restricted endowment fund as permanently restricted, absent donor stipulations to the contrary.

Spending Policy for the Appropriation of Endowment Assets for Expenditure

In accordance with UPMIFA, the Organization will be considering the following factors in making a prudent determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the endowment fund,
(2) Purposes of the Organization and the endowment fund,
(3) General economic conditions,
(4) Possible effect of inflation or deflation,
(5) Expected total return from income and the appreciation of investments,
(6) Other resources of the institution, and,
(7) Investment policy of the institution.

NOTE 18 – ENDOWMENT INVESTMENT AND SPENDING POLICIES (CONTINUED)

Investment Policy for the Endowment

In accordance with UPMIFA, the Organization's policy considers and defines the following factors in managing and investing their investments, including their endowment (institutional) fund:

(1) General economic conditions,
(2) Possible effect of inflation or deflation,
(3) Expected tax consequences, if any, of investment decision or strategies,
(4) Role that each investment within the investment portfolio,
(5) Expected total return from income and the appreciation of investments,
(6) Other resources of the institution, and,
(7) Asset's relationship or special value if any, to the charitable purpose of the institution.

The Organization has one investment policy for its entire investment portfolio, which includes the endowment. The investment policy is intended to establish a plan which will correlate with the Organization's cash flow needs, its need for operating income and its desire for long-term investment growth. It is the Organization's intention to invest all funds in a safe and secure manner, avoiding unnecessary or excessive risk. The general objective is to obtain a reasonable rate of return, defined as income plus realized and unrealized gains for a given period of time. All funds shall be managed on a conservative, risk-adverse basis. The principle objectives of the funds are to preserve capital and maximize current income.

The investment policy specifies investment guidelines to accomplish its investment objectives. The requirements and restrictions contained in its policy authorizes the use of mutual funds, exchange traded funds, limited partnerships, and other commingled investment entities. Diversification by the number of individual securities, industry, and economic sector and within governmental issues is viewed as desirable. Investments shall not be made in companies or financial institutions which have goals that are counter to those of the Organization.

In managing the investment policy, the Organization's Finance Committee, Board of Directors, and COO is responsible for selecting and reviewing the investment professional's performance based on defined criteria and performing a quarterly review of the portfolio and rate of return.

NOTE 18 – ENDOWMENT INVESTMENT AND SPENDING POLICIES (CONTINUED)

Composition of the Endowment

	2017	
	Unrestricted	Permanently Restricted
Endowment net asset composition by type		
Donor restricted	$ -	$ 12,000
Board designated	1,118,341	-
Endownment net assets, end of year	$ 1,118,341	$ 12,000

Reconciliation of the Endowment

	2017	
	Unrestricted	Permanently Restricted
Endowment net assets - beginning of year	$ 1,115,995	$ 12,000
Investment income, net	2,346	25
Contributions	-	-
Amounts appropriated for expenditures	-	(25)
Endowment net assets - end of year	$ 1,118,341	$ 12,000

NOTE 19 – RECLASSIFICATIONS

Certain amounts in the comparative December 31, 2016, financial statements have been reclassified to conform to the presentation used in the December 31, 2017, financial statements.