

TEEN CHALLENGE OF ARIZONA, INC.
Tucson, Arizona

FINANCIAL STATEMENTS
December 31, 2012 and 2011

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Independent Auditors' Report

Board of Directors
Teen Challenge of Arizona, Inc.
Tucson, AZ

Report on the Financial Statements

We have audited the accompanying financial statements of Teen Challenge of Arizona, Inc. (the Organization), which are comprised of the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, cash flows, and functional expenses 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 error or fraud. 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 to 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 positions of the Organization as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Yunk & Guthrie CPAs, PLLC

Tucson, Arizona
July 23, 2013

STATEMENT 1

TEEN CHALLENGE OF ARIZONA, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

| ASSETS | | |
|---------------------------------------|---------------------|---------------------|
| | 2012 | 2011 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 105,078 | \$ 68,362 |
| Pledges receivable | 300,000 | 300,000 |
| Other receivables | - | 57,652 |
| Prepaid expenses | 16,374 | 18,554 |
| | 421,452 | 444,568 |
| NON-CURRENT ASSETS | | |
| Property and equipment, net | 6,758,935 | 6,888,438 |
| Deposits and other assets | 33,676 | 36,264 |
| | 6,792,611 | 6,924,702 |
| | 7,214,063 | 7,369,270 |
| | \$ 7,214,063 | \$ 7,369,270 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 415,861 | \$ 480,509 |
| Line of credit | 350,000 | 399,000 |
| Current portion of long term debt | 41,027 | 42,591 |
| | 806,888 | 922,100 |
| LONG TERM DEBT | | |
| Notes payable, net of current portion | 2,067,468 | 2,107,444 |
| | 2,874,356 | 3,029,544 |
| NET ASSETS | | |
| Unrestricted net assets | 4,339,707 | 4,339,726 |
| | 4,339,707 | 4,339,726 |
| | \$ 7,214,063 | \$ 7,369,270 |
| | \$ 7,214,063 | \$ 7,369,270 |

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

STATEMENT 2
TEEN CHALLENGE OF ARIZONA, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2012 and 2011

| UNRESTRICTED NET ASSETS | <u>2012</u> | <u>2011</u> |
|---|----------------------------|----------------------------|
| Support: | | |
| Public Support: | | |
| Individuals | \$ 2,465,852 | \$ 1,961,969 |
| Organizations | 463,584 | 451,954 |
| Other | 363,513 | 230,988 |
| Other Support and Revenue: | | |
| Donated supplies, services, and property | 147,919 | 156,628 |
| Student expense reimbursements | 12,829 | 34,142 |
| Other | 58,244 | 10 |
| Resale items, services and supplies, net of direct costs of \$ 20,749 and \$ 23,443, respectively | 48,887 | 27,674 |
| Events, banquets, concerts, and calls, net of direct costs of \$ 192,993 and \$ 198,140, respectively | 561,990 | 564,456 |
| Total Unrestricted Support | <u>4,122,818</u> | <u>3,427,821</u> |
| Net assets released from restrictions: | | |
| Restrictions satisfied by use | 241,829 | 468,685 |
| Total Unrestricted Support & Reclassifications | <u>4,364,647</u> | <u>3,896,506</u> |
| Expenses: | | |
| Program Services | 3,826,485 | 3,666,867 |
| Supporting Services: | | |
| Administration | 186,764 | 223,360 |
| Fundraising | 351,417 | 335,084 |
| Total Expenses | <u>4,364,666</u> | <u>4,225,311</u> |
| (Decrease) in Unrestricted Net Assets | (19) | (328,805) |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Support: | | |
| Public Support, individuals | 241,829 | 468,685 |
| Net Assets Released From Restrictions: | | |
| Restrictions satisfied by use | (241,829) | (468,685) |
| Change in Temporarily Restricted Net Assets | <u>-</u> | <u>-</u> |
| (Decrease) in Total Net Assets | (19) | (328,805) |
| NET ASSETS, BEGINNING OF YEAR | <u>4,339,726</u> | <u>4,668,531</u> |
| NET ASSETS, END OF YEAR | <u><u>\$ 4,339,707</u></u> | <u><u>\$ 4,339,726</u></u> |

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

STATEMENT 3

TEEN CHALLENGE OF ARIZONA, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|--|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (19) | \$ (328,805) |
| Adjustments to reconcile the change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 316,675 | 397,321 |
| Changes in operating assets and liabilities: | | |
| Change in pledges receivable | - | - |
| Decrease (increase) in other receivables | 57,652 | (57,652) |
| Decrease in prepaid expenses | 2,180 | 10,934 |
| Decrease in deposits and other assets | 2,588 | 2,588 |
| (Decrease) increase in accounts payable and accrued expenses | (64,648) | 74,152 |
| Net Cash Provided By Operating Activities | 314,428 | 98,538 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from disposals of fixed assets | - | 37,799 |
| Purchases of fixed assets | (187,172) | (174,649) |
| Net Cash (Used) By Investing Activities | (187,172) | (136,850) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Borrowings on line of credit, net of repayments | (49,000) | 22,048 |
| Borrowings under notes payable | - | 58,475 |
| Payments on principal of long-term debt | (41,540) | (27,498) |
| Net Cash (Used) Provided By Financing Activities | (90,540) | 53,025 |
| Net Increase in Cash and Cash Equivalents | 36,716 | 14,713 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 68,362 | 53,649 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 105,078 | \$ 68,362 |
| SUPPLEMENTAL DISCLOSURES | | |
| Interest paid | \$ 199,115 | \$ 181,766 |
| Non-cash transactions -- donated supplies, services and property | \$ 147,919 | \$ 156,628 |

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

STATEMENT 4

TEEN CHALLENGE OF ARIZONA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012

| | Program | Supporting Services | | Total |
|--------------------------------|---------------------|----------------------------|--------------------|---------------------|
| | Services | Administration | Fundraising | |
| Salaries and wages | \$ 1,784,636 | \$ 85,016 | \$ 147,655 | \$ 2,017,307 |
| Employee related expenses | 269,364 | 12,545 | 22,830 | 304,739 |
| Community outreach | 42,183 | 2,280 | 13,986 | 58,449 |
| Depreciation | 277,628 | 13,550 | 25,497 | 316,675 |
| Insurance | 161,715 | 3,170 | 2,465 | 167,350 |
| Interest | 174,563 | 8,520 | 16,032 | 199,115 |
| Office expenses and printing | 149,428 | 10,187 | 8,406 | 168,021 |
| Outside services | 84,675 | 23,006 | 89,955 | 197,636 |
| Repairs and maintenance | 86,870 | 1,154 | 898 | 88,922 |
| Staff development and training | 58,999 | 7,850 | 5,971 | 72,820 |
| Student food, support, etc. | 95,203 | - | - | 95,203 |
| Telecommunications | 69,413 | 2,363 | 5,286 | 77,062 |
| Travel and transportation | 199,595 | 10,121 | 7,480 | 217,196 |
| Utilities | 316,161 | 1,601 | 1,245 | 319,007 |
| Other | 56,052 | 5,400 | 3,712 | 65,164 |
| | <u>\$ 3,826,485</u> | <u>\$ 186,763</u> | <u>\$ 351,418</u> | <u>\$ 4,364,666</u> |

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

STATEMENT 5

TEEN CHALLENGE OF ARIZONA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

| | Program | Supporting Services | | Total |
|--------------------------------|---------------------|----------------------------|--------------------|---------------------|
| | Services | Administration | Fundraising | |
| Salaries and wages | \$ 1,740,098 | \$ 102,389 | \$ 114,429 | \$ 1,956,916 |
| Employee related expenses | 204,879 | 24,799 | 26,497 | 256,175 |
| Community outreach | 42,463 | 1,639 | 11,109 | 55,211 |
| Depreciation | 353,300 | 20,788 | 23,233 | 397,321 |
| Insurance | 152,985 | 949 | 1,221 | 155,155 |
| Interest | 161,627 | 9,510 | 10,629 | 181,766 |
| Office expenses and printing | 143,756 | 7,577 | 12,705 | 164,038 |
| Outside services | 86,664 | 26,029 | 109,260 | 221,953 |
| Repairs and maintenance | 86,956 | 1,160 | 1,492 | 89,608 |
| Staff development and training | 50,200 | 10,996 | 8,330 | 69,526 |
| Student food, support, etc. | 73,206 | - | - | 73,206 |
| Telecommunications | 62,543 | 1,708 | 4,609 | 68,860 |
| Travel and transportation | 163,276 | 4,185 | 6,961 | 174,422 |
| Utilities | 292,846 | 1,162 | 1,494 | 295,502 |
| Other | 52,068 | 10,469 | 3,115 | 65,652 |
| | <u>\$ 3,666,867</u> | <u>\$ 223,360</u> | <u>\$ 335,084</u> | <u>\$ 4,225,311</u> |

These financial statements should be read only in connection
with the accompanying notes to the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

Teen Challenge of Arizona, Inc. (TCA) is a non-profit organization whose goal is to initiate and sustain a Christian recovery process for people who have drug, alcohol and other life-controlling problems. TCA is open to all people of all faiths, color and gender. Incorporated under the laws of the State of Arizona, TCA is affiliated with National Teen Challenge and governed by the Assembly of God, Division of Home Missions. TCA began operations in 1965 and is a member of the Evangelical Council for Financial Accountability. TCA's corporate headquarters are in Oro Valley, Arizona and its programs are conducted at six centers located throughout Arizona.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-For-Profit Organizations*. Under ASC 958-205, TCA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Cash and Cash Equivalents: For purposes of the statement of cash flows, TCA considers all liquid investments available for use with an initial maturity of three months or less to be cash equivalents.

Property and Equipment: Purchased property and equipment with are recorded at cost and donated assets are recorded at their fair market value at the date of the donation. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Estimated useful lives range from five to forty years. Maintenance and repairs are charged to expense as incurred. Property and equipment under \$ 500 are expensed.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledge Receivable, Support and Revenue: It is TCA’s policy to recognize support and revenue as received or earned. Contributions are recognized when received. TCA requests “faith promises” but does not recognize the faith promise as support, until collected, because the faith promises are considered “intentions to give” and TCA would not pursue collections. Pledges receivable of \$ 300,000 recorded at December 31, 2012 and 2011, relate to special gifts made by a donor and received early the following year. Other receivables of \$ -0- and \$ 57,652 relate to tax credit donations for tuition at New Horizons Christian Academy. Unless otherwise indicated, all cash contributions are considered received without donor-imposed restrictions. Contributions with donor-imposed restrictions are classified as temporarily restricted. When the restriction expires, that is, when the time or use restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Assets, Supplies and Services: Donated assets, supplies and services are reflected as revenue in the accompanying statements at their estimated values at the date received. While a number of volunteer services have been donated in providing TCA’s program services and certain fundraising activities, it is TCA’s policy to record donated services only when significant time is volunteered by donors possessing specialized skills in connection with its ministry.

Functional Allocations of Expenses: Costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the various programs and activities benefited.

Reclassifications: Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Income Taxes: TCA is an organization exempt from Federal income tax and related filings under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements. TCA is not classified as a private foundation.

Subsequent Events: In accordance with ASC 855, *Subsequent Events*, TCA evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statements through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on July 23, 2013.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Land | \$ 1,477,957 | \$ 1,481,572 |
| Buildings and improvements | 7,276,198 | 7,177,312 |
| Equipment and furniture | 838,255 | 775,666 |
| Vehicles | <u>508,424</u> | <u>479,112</u> |
| Total fixed assets | 10,100,834 | 9,913,662 |
| Less accumulated depreciation | <u>(3,341,899)</u> | <u>(3,025,224)</u> |
| Fixed assets, net of accumulated depreciation | <u>\$ 6,758,935</u> | <u>\$ 6,888,438</u> |

Depreciation expense was \$ 316,675 and \$ 397,321 for the years ended December 31, 2012 and 2011, respectively.

NOTE 3 – LINE OF CREDIT

TCA refinanced a revolving line of credit with a lender providing for a total credit facility of \$ 400,000 secured by real estate. The interest rate may fluctuate annually based upon the lender's internal indexing based upon similar loans the lender has made, in no event shall the interest increase or decrease by more than 2% on any change, nor drop below the initial interest rate or exceed 6% above the initial rate. As of December 31, 2012 and 2011, TCA had borrowed \$ 350,000 and \$ 399,000, respectively, against the lines of credit. The refinanced line of credit has an initial interest rate of 8.25% per annum with a required minimum monthly payment equal to the amount of accrued interest. The interest rate remained at 8.25% at December 31, 2012 and 2011. The note matures on May 15, 2013.

NOTE 4 – RETIREMENT PLAN

Substantially all permanent full time employees are eligible to contribute to a cost sharing defined contribution 403(b) plan. Employees may start contributing to the plan after 90 days of employment. The employer shall contribute a matching contribution up to 3%, beginning after one year of employment and phased per a vesting schedule prorated over a period of six years of employment. Retirement plan expense was \$ 21,919 and \$ 22,365 as of December 31, 2012 and 2011, respectively.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 – LONG-TERM DEBT

Long-term debt is summarized as follows:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Note payable, \$ 535 monthly payment of principal and interest at 5%, matures April 2016. | \$ 19,912 | \$ 24,988 |
| Promissory note payable, \$ 1,322 monthly payment of principal and interest at 5% through September 2013. | 11,642 | 26,480 |
| Mortgage note payable, \$ 14,893 monthly payment of principal and initial interest at 7.50%, matures May 15, 2040, secured by TCA's assets. | <u>2,076,941</u> | <u>2,098,567</u> |
| Less current portion: | <u>(41,027)</u> | <u>(42,591)</u> |
| Total | <u>\$ 2,067,468</u> | <u>\$ 2,107,444</u> |

Loan origination fees of \$ 29,100 were incurred in connection with the mortgage note payable and promissory note payable, and are amortized over the life of the loans. Unamortized loan issuance costs are reported on the statement of financial position as a component of deposits and other assets. Amortization expense was \$ 2,588 for the years ended December 31, 2012 and 2011, respectively. Estimated amortization expense for the next five years ending December 31 and thereafter are as follows:

| | |
|------------|------------------|
| 2013 | \$ 1,700 |
| 2014 | 1,255 |
| 2015 | 1,255 |
| 2016 | 1,255 |
| 2017 | 1,255 |
| Thereafter | <u>15,478</u> |
| | <u>\$ 22,198</u> |

Maturities of long-term debt for each of the next five years ending December 31 and thereafter are as follows:

| | |
|------------|---------------------|
| 2013 | \$ 41,027 |
| 2014 | 31,520 |
| 2015 | 33,812 |
| 2016 | 32,148 |
| 2017 | 32,122 |
| Thereafter | <u>1,937,866</u> |
| | <u>\$ 2,108,495</u> |

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 – COMMITMENTS

TCA entered into an operating lease for retail space for Springboard’s clothing resale shop, the Butterfly Boutique. The lease is triple net and requires minimum monthly payments of \$ 1,190 through November 2013. The rental expense of the Butterfly Boutique is included as a direct cost of resale items in the accompanying statement of activities.

In 2011, TCA entered into two equipment leases for office equipment. Both leases require minimum monthly payments of \$ 770 through April 2016. There is also a service agreement for the office equipment that has a minimum monthly payment of \$ 444 for the same period.

In 2009, TCA entered into an operating lease for office equipment with a minimum monthly payment of \$ 425. This lease lasts through April 2014.

Future minimum payments under these leases are as follows for the years ended December 31:

| | |
|------|------------------|
| 2013 | \$ 32,758 |
| 2014 | 16,268 |
| 2015 | 14,568 |
| 2016 | <u>4,856</u> |
| | <u>\$ 68,450</u> |

These notes are an integral part of the financial statements.