

TEEN CHALLENGE OF ARIZONA, INC.
Tucson, Arizona

FINANCIAL STATEMENTS
December 31, 2013 and 2012

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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. (an Arizona non-profit organization), which are comprised of the statements of financial position as of December 31, 2013 and 2012 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 audits. 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 audits 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 position of Teen Challenge of Arizona, Inc. as of December 31, 2013 and 2012 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 24, 2014

STATEMENT 1

TEEN CHALLENGE OF ARIZONA, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2013 and 2012

	ASSETS	
	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 86,482	\$ 105,078
Pledges receivable	-	300,000
Prepaid expenses	20,609	16,374
	107,091	421,452
NON-CURRENT ASSETS		
Property and equipment, net	6,583,187	6,758,935
Deposits and other assets	37,267	33,676
	6,620,454	6,792,611
Total Current Assets	107,091	421,452
Total Non-Current Assets	6,620,454	6,792,611
Total Assets	\$ 6,727,545	\$ 7,214,063
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 385,515	\$ 415,861
Line of credit	377,031	350,000
Current portion of long term debt	34,738	41,027
	797,284	806,888
Total Current Liabilities	797,284	806,888
LONG TERM DEBT		
Notes payable, net of current portion	2,096,554	2,067,468
	2,096,554	2,067,468
Total Liabilities	2,893,838	2,874,356
NET ASSETS		
Unrestricted net assets	3,833,707	4,339,707
	3,833,707	4,339,707
Total Net Assets	3,833,707	4,339,707
Total Liabilities and Net Assets	\$ 6,727,545	\$ 7,214,063

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, 2013 and 2012

UNRESTRICTED NET ASSETS	<u>2013</u>	<u>2012</u>
Support:		
Public Support:		
Individuals	\$ 1,996,685	\$ 2,465,852
Organizations	376,359	463,584
Other	424,684	363,513
Other Support and Revenue:		
Donated supplies, services, and property	155,284	147,919
Student expense reimbursements	15,162	12,829
Other	11,719	58,244
Resale items, services and supplies, net of direct costs of \$ 24,360 and \$ 20,749, respectively	101,272	48,887
Events, banquets, concerts, and calls, net of direct costs of \$ 184,908 and \$ 192,993, respectively	551,341	561,990
Total Unrestricted Support	<u>3,632,506</u>	<u>4,122,818</u>
Net assets released from restrictions:		
Restrictions satisfied by use	29,678	241,829
Total Unrestricted Support & Reclassifications	<u>3,662,184</u>	<u>4,364,647</u>
Expenses:		
Program Services	3,571,599	3,826,485
Supporting Services:		
Administration	176,212	186,763
Fundraising	420,373	351,418
Total Expenses	<u>4,168,184</u>	<u>4,364,666</u>
(Decrease) in Unrestricted Net Assets	(506,000)	(19)
TEMPORARILY RESTRICTED NET ASSETS		
Support:		
Public support, individuals	29,678	241,829
Net assets released from restrictions:		
Restrictions satisfied by use	(29,678)	(241,829)
Change in Temporarily Restricted Net Assets	<u>-</u>	<u>-</u>
(Decrease) in Total Net Assets	(506,000)	(19)
NET ASSETS, BEGINNING OF YEAR	<u>4,339,707</u>	<u>4,339,726</u>
NET ASSETS, END OF YEAR	<u>\$ 3,833,707</u>	<u>\$ 4,339,707</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, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (506,000)	\$ (19)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	318,984	316,675
Changes in operating assets and liabilities:		
Change in pledges receivable		-
Decrease in pledges receivables	300,000	-
Decrease in other receivables	-	57,652
(Increase) decrease in prepaid expenses	(4,235)	2,180
(Increase) decrease in deposits and other assets	(3,591)	2,588
(Decrease) in accounts payable and accrued expenses	(30,346)	(64,648)
Increase (decrease) in line of credit	27,031	(49,000)
Net Cash Provided By Operating Activities	101,843	265,428
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(143,236)	(187,172)
Net Cash (Used) By Investing Activities	(143,236)	(187,172)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under notes payable	2,128,177	-
Payments on principal of long-term debt	(2,105,380)	(41,540)
Net Cash Provided (Used) By Financing Activities	22,797	(41,540)
Net (Decrease) Increase in Cash and Cash Equivalents	(18,596)	36,716
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	105,078	68,362
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 86,482	\$ 105,078
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 196,521	\$ 199,115
Non-cash transactions -- donated supplies, services and property	\$ 155,284	\$ 147,919

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, 2013

	Program	Supporting Services		Total
	Services	Administration	Fundraising	
Salaries and wages	\$ 1,691,867	\$ 85,629	\$ 147,711	\$ 1,925,207
Employee related expenses	237,563	12,066	16,301	265,930
Community outreach	45,629	2,313	17,200	65,142
Depreciation	246,112	12,142	60,730	318,984
Insurance	164,938	4,601	3,579	173,118
Interest	151,626	7,481	37,414	196,521
Office expenses and printing	118,990	8,876	7,336	135,202
Outside services	49,934	15,775	106,827	172,536
Repairs and maintenance	99,528	1,665	1,102	102,295
Staff development and training	58,221	8,168	5,976	72,365
Student food, support, etc.	75,298	-	-	75,298
Telecommunications	64,333	2,450	8,016	74,799
Travel and transportation	200,134	8,989	3,961	213,084
Utilities	289,486	1,938	1,507	292,931
Other	57,014	4,119	2,713	63,846
Discontinued operations	20,926	-	-	20,926
	<u>\$ 3,571,599</u>	<u>\$ 176,212</u>	<u>\$ 420,373</u>	<u>\$ 4,168,184</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, 2012

	Program Services	Supporting Services		Total
		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.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

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, 2013 and 2012

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, relate to special gifts made by a donor and received early the following year. Pledges receivable were \$ -0- as of December 31, 2013. 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.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,490,087	\$ 1,477,957
Buildings and improvements	7,334,299	7,276,198
Equipment and furniture	883,726	838,255
Vehicles	<u>535,958</u>	<u>508,424</u>
Total fixed assets	10,244,070	10,100,834
Less accumulated depreciation	<u>(3,660,883)</u>	<u>(3,341,899)</u>
Fixed assets, net of Accumulated depreciation	<u>\$ 6,583,187</u>	<u>\$6,758,935</u>

Depreciation expense was \$ 318,984 and \$ 316,675 for the years ended December 31, 2013 and 2012, respectively.

NOTE 3 – LINE OF CREDIT

TCA refinanced a revolving line of credit with a lender providing for a total credit facility of \$ 500,000 secured by real estate. The note matures on September 15, 2018. The interest rate may be adjusted beginning on September 15, 2014 and may fluctuate annually thereafter, 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. In addition, the principal balance must be paid in full annually and the balance must remain at zero for a period of 30 days after being paid off. Under this line of credit TCAZ cannot borrow additional funds of \$ 25,000 or greater without prior written consent. As of December 31, 2013 and 2012 TCA had borrowed \$ 377,021 and \$350,000, respectively, against the line of credit. The refinanced line of credit has an initial interest rate of 6.25% 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 was adjusted to 6.25% at December 31, 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 \$ 20,226 and \$ 21,919 as of December 31, 2013 and 2012, respectively.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 5 – LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>2013</u>	<u>2012</u>
Promissory note payable, \$ 1,322 monthly payment of principal and interest at 5% through September 2013. Refinanced in 2013.	\$ -0-	\$ 11,642
Mortgage note payable, \$ 14,893 monthly payment of principal and initial interest at 7.50%, matures May 15, 2040, secured by TCA's assets. Refinanced in 2013.	-0-	2,076,941
Auto loan, \$361.91 monthly payment of principal and interest at 11.99%, matures March 28, 2017.	11,759	-0-
Note payable, \$ 535 monthly payment of principal and interest at 5%, matures April 2016.	14,836	19,912
Mortgage note payable, \$ 13,001 monthly payments of principal and initial interest at 6.25%, matures September 15, 2033, secured by TCA's assets.	<u>2,104,697</u>	<u>-0-</u>
Total notes payable	2,131,292	2,108,495
Current portion	<u>(34,738)</u>	<u>(41,027)</u>
Notes payable, net of current portion	<u>\$ 2,096,554</u>	<u>\$ 2,067,468</u>

Loan origination fees of \$ 26,115 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 \$ 326 for the year ended December 31, 2013 and \$ 2,588 for the year ended December 31, 2012. Estimated amortization expense for the next five years ending December 31 and thereafter is as follows:

2014	\$ 1,306
2015	1,306
2016	1,306
2017	1,306
2018	1,306
Thereafter	<u>19,157</u>
	<u>\$ 25,789</u>

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 5 – LONG-TERM DEBT (Continued)

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

2014	\$	34,738
2015		36,326
2016		34,451
2017		32,026
2018		32,237
Thereafter		<u>1,961,514</u>
		<u>\$ 2,131,292</u>

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 \$ 1,148 through May 2014. With a 3% rent increase annually. The lease expires May 31, 2016. 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.

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

2014		33,444
2015		28,764
2016		<u>29,184</u>
Total		<u>\$ 91,392</u>

NOTE 7 – 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 24, 2014.

These notes are an integral part of the financial statements.