

TEEN CHALLENGE OF ARIZONA, INC.
Oro Valley, Arizona

Financial Statements
December 31, 2009 and 2008

Teen Challenge of Arizona, Inc.

FINANCIAL STATEMENTS

December 31, 2009 and 2008

Contents

Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statements of Functional Expenses	5-6
Notes to Financial Statements	7-11

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Teen Challenge of Arizona, Inc.
Oro Valley, Arizona

I have audited the accompanying statements of financial position of Teen Challenge of Arizona, Inc. (a non-profit organization) as of December 31, 2009 and 2008, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America (U.S.). Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my 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, 2009 and 2008 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the U.S.



Tucson, Arizona
June 8, 2010

STATEMENT 1

Teen Challenge of Arizona, Inc.
STATEMENTS OF FINANCIAL POSITION
For the Years Ended December 31, 2009 and 2008

	ASSETS	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 65,558	\$ 141,357
Pledges receivable	305,470	300,000
Land, buildings, and equipment, net	7,371,882	7,603,077
Prepaid expenses and other assets	80,363	49,054
	Total Assets	Total Assets
	\$ 7,823,273	\$ 8,093,488
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 365,830	\$ 247,361
Line of credit	332,885	297,086
Long-term debt	1,935,119	2,079,829
	Total Liabilities	Total Liabilities
	2,633,834	2,624,276
NET ASSETS		
Unrestricted net assets	5,181,429	5,469,212
Temporarily restricted net assets	8,010	-
	Total Net Assets	Total Net Assets
	5,189,439	5,469,212
	Total Liabilities and Net Assets	Total Liabilities and Net Assets
	\$ 7,823,273	\$ 8,093,488

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

STATEMENT 2

Teen Challenge of Arizona, Inc.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2009 and 2008

UNRESTRICTED NET ASSETS	2009	2008
Support:		
Public Support:		
Individuals	\$ 1,634,251	\$ 2,137,594
Organizations	501,763	435,204
Other	305,477	238,820
Other Support and Revenue:		
Donated supplies and services	154,913	121,599
Student expense reimbursements	15,575	35,709
Investment income	685	2,921
Resale items, services and supplies, net of direct costs of \$24,027 and \$49,621, respectively	7,911	(8,707)
Events, banquets, concerts, calls, net of direct costs of \$269,395 and \$239,011, respectively	471,725	592,070
Total Unrestricted Support	<u>3,092,300</u>	<u>3,555,210</u>
Net Assets Released From Restrictions--		
Restrictions Satisfied by Payment	<u>857,629</u>	<u>672,715</u>
Total Unrestricted Support & Reclassifications	<u>3,949,929</u>	<u>4,227,925</u>
Expenses:		
Program Services	3,650,636	3,675,334
Supporting Services:		
Administration	303,367	340,168
Fundraising	283,709	240,694
Total Expenses	<u>4,237,712</u>	<u>4,256,196</u>
Decrease in Unrestricted Net Assets	<u>(287,783)</u>	<u>(28,271)</u>
 TEMPORARILY RESTRICTED NET ASSETS		
Support:		
Public Support, individuals	865,639	556,008
Net Assets Released From Restrictions--		
Restrictions Satisfied by Payment	<u>(857,629)</u>	<u>(672,715)</u>
Increase (decrease) in Temporarily Restricted Net Assets	<u>8,010</u>	<u>(116,707)</u>
Decrease in Total Net Assets	(279,773)	(144,978)
 NET ASSETS, BEGINNING OF YEAR	<u>5,469,212</u>	<u>5,614,190</u>
 NET ASSETS, END OF YEAR	<u>\$ 5,189,439</u>	<u>\$ 5,469,212</u>

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

STATEMENT 3

Teen Challenge of Arizona, Inc.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (279,773)	\$ (144,978)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	355,365	323,836
Changes in operating assets and liabilities:		
(Increase) in pledges receivable	(5,470)	-
(Increase) in prepaid expenses and other assets	(31,309)	(15,736)
Increase in accounts payable and accrued expenses	118,469	27,149
Net Cash Provided By Operating Activities	<u>157,282</u>	<u>190,271</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(124,170)	(767,314)
Net Cash (Used For) Investing Activities	<u>(124,170)</u>	<u>(767,314)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings (repayments) of line of credit	35,799	297,086
Borrowings of long-term debt	-	308,308
Repayments of long-term debt	(144,710)	(86,064)
Net Cash (Used For) Provided By Financing Activities	<u>(108,911)</u>	<u>519,330</u>
Net (Decrease) in Cash and Cash Equivalents	(75,799)	(57,713)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>141,357</u>	<u>199,070</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 65,558</u>	<u>\$ 141,357</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 180,030</u>	<u>\$ 170,590</u>
Non-cash transactions -- donated supplies, services and property	<u>\$ 154,913</u>	<u>\$ 121,599</u>

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

STATEMENT 4

Teen Challenge of Arizona, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2009 and 2008

	2009			
	Program	Supporting Services		Total
	Services	Administration	Fundraising	
Salaries, wages, payroll taxes	\$ 1,675,490	\$ 162,751	\$ 89,878	\$ 1,928,119
Employee benefits and allowances	114,398	16,103	9,935	140,436
Community outreach	76,697	6,089	35,313	118,099
Depreciation	308,804	29,996	16,565	355,365
Insurance	164,323	275	192	164,790
Interest	141,397	23,979	14,654	180,030
Office expenses and printing	145,561	23,149	17,060	185,770
Outside services	143,830	20,020	82,522	246,372
Repairs and maintenance	109,016	1,990	1,392	112,398
Staff development and training	61,950	3,279	2,004	67,233
Student food, support, etc.	154,124	-	-	154,124
Telecommunications	66,947	3,565	5,835	76,347
Travel and transportation	159,062	5,619	4,355	169,036
Utilities	281,482	2,753	1,682	285,917
Other	47,555	3,799	2,322	53,676
	<u>\$ 3,650,636</u>	<u>\$ 303,367</u>	<u>\$ 283,709</u>	<u>\$ 4,237,712</u>

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

Teen Challenge of Arizona, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2009 and 2008

	2008			
	Program	Supporting Services		Total
	Services	Administration	Fundraising	
Salaries, wages, payroll taxes	\$ 1,758,861	\$ 169,906	\$ 75,238	\$ 2,004,005
Employee benefits and allowances	129,539	12,513	5,541	147,593
Community outreach	46,160	7,693	23,081	76,934
Depreciation	284,222	27,456	12,158	323,836
Insurance	133,631	12,909	5,716	152,256
Interest	149,722	14,463	6,405	170,590
Office expenses and printing	180,896	17,475	7,738	206,109
Outside services	92,767	24,659	84,461	201,887
Repairs and maintenance	94,268	1,840	1,288	97,396
Staff development and training	96,186	9,292	4,115	109,593
Student food, support, etc.	98,576	9,132	-	107,708
Telecommunications	67,119	6,484	2,871	76,474
Travel and transportation	206,385	19,937	8,828	235,150
Utilities	287,338	1,613	1,129	290,080
Other	49,664	4,797	2,124	56,585
	\$ 3,675,334	\$ 340,168	\$ 240,694	\$ 4,256,196

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

Teen Challenge of Arizona, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

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 (ECFA). 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, formerly Statement of Financial Accounting Standards (SFAS) No. 117, *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.

Unrestricted net assets include all net assets for which there are no donor-imposed restrictions and those for which restrictions were met in the same accounting period as received.

Temporarily restricted net assets include contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

Permanently restricted net assets include contributed net assets, which require by donor restriction that the corpus be invested in perpetuity, and only the income be made available for program operations. TCA had no permanently restricted net assets as of December 31, 2009 and 2008.

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.

Teen Challenge of Arizona, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

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

Summary of Significant Accounting Policies (Continued)

Property and Equipment – Purchased property and equipment 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. Items purchased under \$500 are expensed.

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 \$305,220 and \$300,000 recorded at December 31, 2009 and 2008, respectively, relate to special gifts made by donors and received early the following year. 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, 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.

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, the Company 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 June 8, 2010.

Teen Challenge of Arizona, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

NOTE 2 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 1,477,957	\$ 1,477,907
Buildings and improvements	7,085,627	7,017,106
Equipment and furniture	729,508	695,234
Vehicles	<u>407,595</u>	<u>428,220</u>
Total fixed assets	9,700,687	9,618,467
Less accumulated depreciation	<u>2,328,805</u>	<u>2,015,390</u>
Fixed assets, net of accumulated depreciation	<u>\$ 7,371,882</u>	<u>\$ 7,603,077</u>

TCA received a donation of property in Kingman, Arizona in 2009 valued at \$46,000 which management intends to hold for sale.

Depreciation expense was \$355,365 and \$323,836 for the years ended December 31, 2009 and 2008, respectively.

NOTE 3 – LINE OF CREDIT

TCA has a revolving line of credit with a bank providing for a total credit facility of \$400,000 secured by real estate. The interest rate fluctuates with the bank's prime rate plus 0.50%. As of December 31, 2009 and 2008 TCA had borrowed \$332,885 and \$297,086, respectively, against this line of credit. The line of credit was refinanced subsequent to the balance sheet date in a new line of credit with a credit facility of \$400,000, an initial interest rate of 8.25% per annum, and maturing on May 15, 2013.

NOTE 4 – LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>2009</u>	<u>2008</u>
Mortgage payable, \$2,512 monthly payment of principal and interest at 6.12%, matures May 2012 and is secured by a deed of trust on the Tucson Center real property. The interest rate is subject to adjustment every two years.	\$ 73,996	\$ 96,611
Mortgage payable, \$1,702 monthly payment including interest at 6.5%, matures March, 2017 and is secured by the Phoenix Center real property.	119,055	130,203

Teen Challenge of Arizona, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Long-term debt is summarized as follows:	<u>2009</u>	<u>2008</u>
Mortgage payable, \$2,628 monthly payment including interest at 6.5%, matures March 2017 and is secured by a deed of trust on the Christian Life Ranch property.	180,979	201,007
Mortgage payable, \$11,855 monthly payment of principal and interest at 7.25%, matures October 2024 and is secured by a deed of trust on corporate center.	1,291,035	1,337,844
Loan payable, \$1,689 monthly payment of principal and interest at 7.25%, matures December 2038 and is secured by corporate assets.	238,974	247,600
Vehicle loans payable, \$5,000 monthly payment of principal and interest at 5% through February 2010, secured by four vehicles.	<u>27,364</u>	<u>66,564</u>
Totals	<u>\$ 1,931,403</u>	<u>\$ 2,079,829</u>

Subsequent to the balance sheet date, TCA paid off the above notes, excluding the vehicle loans, with a new loan for \$2,130,000, with the excess amount taken out in cash. Maturities of long-term debt for each of the next five years ending December 31 and thereafter are as follows:

2010	\$ 75,514
2011	20,510
2012	22,103
2013	23,819
2014	25,668
Thereafter	<u>2,026,625</u>
	<u>\$ 2,194,239</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2009, there was \$8,010 held for future construction projects.

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 \$1,166.67 through September 2010, with renewal options thereafter. The rental expense of the Butterfly Boutique is included as a direct cost of resale items in the accompanying statement of activities.

Teen Challenge of Arizona, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

NOTE 6 – COMMITMENTS (CONTINUED)

As part of its acquisition of New Horizon Christian Academy effective July 1, 2008 TCA assumed its lease obligation for its office and classrooms. The lease requires monthly payments of \$1,031.25 through November 2009. The lease was renewed for one year, and requires monthly payments of \$1,083.32 through November 2010. TCA entered into an operating lease agreement for office equipment on January 10, 2007, which requires minimum monthly payments of \$1,275.73 through December 31, 2011.

These notes are an integral part of the financial statements.