

TEEN CHALLENGE OF ARIZONA, INC.
Oro Valley, Arizona

FINANCIAL STATEMENTS
December 31, 2010 and 2009

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Loren Yunk, CPA, P.C.
2016 E Broadway
Tucson, AZ 85719
(520) 207-4518 Fax (520) 207-4591
Member AICPA/ASCPA

INDEPENDENT AUDITOR'S 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, 2010 and 2009, 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, 2010 and 2009 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.

 CPA, PC

Tucson, Arizona
July 5, 2011

STATEMENT 1

TEEN CHALLENGE OF ARIZONA, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009

	ASSETS	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 53,649	\$ 65,558
Pledges receivable	300,000	305,470
Land, buildings, and equipment, net	7,148,909	7,371,882
Prepaid expenses and other assets	68,340	80,363
	Total Assets	Total Assets
	\$ 7,570,898	\$ 7,823,273
	LIABILITIES AND NET ASSETS	
LIABILITIES		
Accounts payable and accrued expenses	\$ 314,525	\$ 369,546
Line of credit	376,952	332,885
Long-term debt	2,119,058	1,931,403
	Total Liabilities	Total Liabilities
	2,810,535	2,633,834
NET ASSETS		
Unrestricted net assets	\$ 4,760,363	5,181,429
Temporarily restricted net assets	-	8,010
	Total Net Assets	Total Net Assets
	4,760,363	5,189,439
Total Liabilities and Net Assets	\$ 7,570,898	\$ 7,823,273

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, 2010 and 2009

UNRESTRICTED NET ASSETS	<u>2010</u>	<u>2009</u>
Support:		
Public Support:		
Individuals	\$ 1,647,617	\$ 1,634,251
Organizations	491,076	501,763
Other	232,213	305,477
Other Support and Revenue:		
Donated supplies, services, and property	103,053	154,913
Student expense reimbursements	18,159	15,575
Investment income	480	685
Resale items, services and supplies, net of direct costs of \$26,200 and \$24,027, respectively	25,104	7,911
Events, banquets, concerts, calls, net of direct costs of \$243,506 and \$269,395, respectively	547,673	471,725
Total Unrestricted Support	<u>3,065,375</u>	<u>3,092,300</u>
Net Assets Released From Restrictions:		
Restrictions Satisfied by Payment	436,723	857,629
Total Unrestricted Support & Reclassifications	<u>3,502,098</u>	<u>3,949,929</u>
Expenses:		
Program Services	3,383,378	3,650,636
Supporting Services:		
Administration	274,955	303,367
Fundraising	264,831	283,709
Total Expenses	<u>3,923,164</u>	<u>4,237,712</u>
Decrease in Unrestricted Net Assets	<u>(421,066)</u>	<u>(287,783)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Support:		
Public Support, individuals	428,713	865,639
Net Assets Released From Restrictions--		
Restrictions Satisfied by Payment	(436,723)	(857,629)
(Decrease) increase in Temporarily Restricted Net Assets	<u>(8,010)</u>	<u>8,010</u>
(Decrease) in Total Net Assets	(429,076)	(279,773)
NET ASSETS, BEGINNING OF YEAR	<u>5,189,439</u>	<u>5,469,212</u>
NET ASSETS, END OF YEAR	<u><u>\$ 4,760,363</u></u>	<u><u>\$ 5,189,439</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, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (429,076)	\$ (279,773)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization	325,555	355,365
Changes in operating assets and liabilities:		
Decrease (increase) in pledges receivable	5,470	(5,470)
Decrease (increase) in prepaid expenses and other assets	12,023	(31,309)
(Decrease) increase in accounts payable and accrued expenses	(55,021)	118,469
Net Cash (Used For) Provided By Operating Activities	(141,049)	157,282
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of fixed assets	55,897	-
Purchases of fixed assets	(158,477)	(124,170)
Net Cash (Used For) Investing Activities	(102,580)	(124,170)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings of line of credit, net of repayments	44,067	35,799
Borrowings of long-term debt	2,130,000	-
Repayments of long-term debt	(1,942,347)	(144,710)
Net Cash Provided By (Used For) Financing Activities	231,720	(108,911)
Net (Decrease) in Cash and Cash Equivalents	(11,909)	(75,799)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	65,558	141,357
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 53,649	\$ 65,558
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 170,821	\$ 180,030
Non-cash transactions -- donated supplies, services and property	\$ 103,053	\$ 154,913

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, 2010

	2010			
	Program	Supporting Services		Total
	Services	Administration	Fundraising	
Salaries, wages, payroll taxes	\$ 1,601,466	\$ 119,861	\$ 76,574	\$ 1,797,901
Employee benefits and allowances	213,461	34,975	18,216	266,652
Community outreach	42,763	4,647	15,568	62,978
Depreciation	282,907	27,477	15,171	325,555
Insurance	136,348	1,415	166	137,929
Interest	159,335	11,932	7,620	178,887
Office expenses and printing	130,039	9,898	20,161	160,098
Outside services	72,086	27,083	87,026	186,195
Repairs and maintenance	99,962	1,525	1,355	102,842
Staff development and training	49,930	5,797	6,080	61,807
Student food, support, etc.	73,848	-	-	73,848
Telecommunications	65,797	1,870	5,392	73,059
Travel and transportation	151,452	5,630	5,368	162,450
Utilities	241,048	17,839	1,309	260,196
Other	62,936	5,006	4,825	72,767
	\$ 3,383,378	\$ 274,955	\$ 264,831	\$ 3,923,164

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, 2009

	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
	\$ 3,650,636	\$ 303,367	\$ 283,709	\$ 4,237,712

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, 2010 and 2009

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, 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, 2010 and 2009.

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.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

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 \$300,000 recorded at December 31, 2010 and 2009, relate to special gifts made by a donor 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*, 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 5, 2011.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,481,572	\$ 1,477,907
Buildings and improvements	7,099,959	7,085,627
Equipment and furniture	758,045	729,508
Vehicles	<u>437,236</u>	<u>407,595</u>
Total fixed assets	9,776,812	9,700,687
Less accumulated depreciation	<u>(2,627,903)</u>	<u>2,328,805)</u>
Fixed assets, net of accumulated depreciation	<u>\$ 7,148,909</u>	<u>\$ 7,371,882</u>

TCA received a donation of property in Kingman, Arizona in 2009 valued at \$46,000 which TCA sold in 2010.

Depreciation expense was \$325,555 and \$355,365 for the years ended December 31, 2010 and 2009, 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 drop below the initial interest rate or exceed an overall cap of 2%. As of December 31, 2010 and 2009, TCA had borrowed \$376,952 and \$332,885, 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 note matures on May 15, 2013.

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 4 – LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>2010</u>	<u>2009</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.	\$ -0-	\$ 73,996
Mortgage payable, \$1,702 monthly payment including interest at 6.5%, matures March, 2017 and is secured by the Phoenix Center real property.	-0-	119,055
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.	-0-	180,979
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.	-0-	1,291,035
Loan payable, \$1,689 monthly payment of principal and interest at 7.25%, matures December 2038 and is secured by corporate assets.	-0-	238,974
Vehicle loans payable, \$5,000 monthly payment of principal and interest at 5% through February 2010, secured by four vehicles.	-0-	27,364
Mortgage payable, \$14,893 monthly payment of principal and initial interest at 7.50% and matures May 15, 2030 and is secured by TCA's assets.	<u>2,119,058</u>	<u>-0-</u>
Totals	\$ <u>2,119,058</u>	\$ <u>1,931,403</u>

These notes are an integral part of the financial statements.

TEEN CHALLENGE OF ARIZONA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 4 – LONG-TERM DEBT (CONTINUED)

During the year 2010, TCA refinanced its long-term debt 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:

2011	\$ 20,510
2012	22,103
2013	23,819
2014	25,668
2015	27,660
Thereafter	<u>1,999,298</u>
	<u>\$ 2,119,058</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2010, there were no temporarily restricted net assets. As of December 31, 2009, there was \$8,010 in temporarily restricted net assets that were held for future construction projects.

NOTE 6 – 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 \$26,310 and \$14,252 as of December 31, 2010 and 2009, respectively.

NOTE 7 – 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 \$1,168 through November 2010 at which time the rent increases to \$1,190 per month 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.

TCA entered into an operating lease of office and classrooms for the New Horizon Christian Academy. The lease requires minimum monthly payments of \$850 through May 2011, at which time the rent increases to \$1,050 per month through November 2011. 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.