




Teen Challenge of Texas, Inc.

Financial Statements  
(With Independent Auditors' Report Thereon)



December 31, 2012 and 2011



## Independent Auditors' Report

To the Board of Directors  
of Teen Challenge of Texas, Inc.:

### Report on the Financial Statements

We have audited the accompanying financial statements of Teen Challenge of Texas, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows 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 generally accepted accounting principles; 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. 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 in 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 Texas, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**PMB Helin Donovan, LLP**

*PMB Helin Donovan, LLP*

Austin, Texas  
November 6, 2013

**TEEN CHALLENGE TEXAS, INC.**  
**Statements of Financial Position**  
**As of December 31, 2012 and 2011**

<b>Assets</b>	<b>2012</b>	<b>2011</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 87,552	\$ 33,583
Notes receivable	623,600	68,500
Inventory	42,037	80,556
Total current assets	753,189	182,639
Investments	-	13,892
Land, buildings and equipment, net	4,777,662	5,536,119
Construction in progress	110,086	-
Other long-term assets	46,302	20,399
Total assets	\$ 5,687,239	\$ 5,753,049
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 402,543	\$ 405,513
Current portion of long-term debt	75,230	61,242
Current portion of capitalized lease obligations	6,253	14,072
Total current liabilities	484,026	480,827
Long-term debt, less current portion	2,077,361	2,014,790
Long-term portion of capitalized lease obligations	-	215
Other long-term liabilities	39,155	-
Total liabilities	2,600,542	2,495,832
<b>Net assets:</b>		
Unrestricted	3,086,697	3,243,325
Temporarily restricted	-	13,892
Permanently restricted	-	-
Total net assets	3,086,697	3,257,217
Total liabilities and net assets	\$ 5,687,239	\$ 5,753,049

See accompanying notes to financial statements.

**TEEN CHALLENGE OF TEXAS, INC.**

Statement of Activities

Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenues</b>				
Individuals' contributions	\$ 165,035	\$ -	\$ -	\$ 165,035
Church contributions	138,622	-	-	138,622
Other contributions	653,768	-	-	653,768
Special events	949,854	-	-	949,854
Crafts and services	874,018	-	-	874,018
Gain on extinguishment of debt	46,305	-	-	46,305
Other income	458,225	-	-	458,225
Loss on disposal of assets, net	(502,658)	-	-	(502,658)
Net assets released from restrictions	13,892	(13,892)	-	-
Total support and revenues	<u>2,797,061</u>	<u>(13,892)</u>	<u>-</u>	<u>2,783,169</u>
<b>Expenses</b>				
Program services:				
Rehabilitation	<u>1,979,220</u>	<u>-</u>	<u>-</u>	<u>1,979,220</u>
Total program services	<u>1,979,220</u>	<u>-</u>	<u>-</u>	<u>1,979,220</u>
Supporting services:				
Management and general	481,025	-	-	481,025
Fundraising	493,444	-	-	493,444
Total supporting services	<u>974,469</u>	<u>-</u>	<u>-</u>	<u>974,469</u>
Total expenses	<u>2,953,689</u>	<u>-</u>	<u>-</u>	<u>2,953,689</u>
Decrease in net assets	(156,628)	(13,892)	-	(170,520)
Net assets at beginning of year	3,243,325	13,892	-	3,257,217
Net assets at end of year	<u>\$ 3,086,697</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,086,697</u>

See accompanying notes to financial statements.

**TEEN CHALLENGE OF TEXAS, INC.**

Statement of Activities

Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenues</b>				
Individuals' contributions	\$ 1,962,406	\$ -	\$ -	\$ 1,962,406
Church contributions	130,404	-	-	130,404
Other contributions	263,599	-	-	263,599
Special events	798,047	-	-	798,047
Crafts and services	736,415	-	-	736,415
In-kind contributions	525,000	-	-	525,000
Other income	465,264	-	-	465,264
Gain on extinguishment of debt	1,035,634	-	-	1,035,634
Loss on disposal of assets	<u>(471,959)</u>	-	-	<u>(471,959)</u>
Total support and revenues	<u>5,444,810</u>	<u>-</u>	<u>-</u>	<u>5,444,810</u>
<b>Expenses</b>				
Program services:				
Rehabilitation	<u>2,786,946</u>	-	-	<u>2,786,946</u>
Total program services	<u>2,786,946</u>	<u>-</u>	<u>-</u>	<u>2,786,946</u>
Supporting services:				
Management and general	136,958	-	-	136,958
Fundraising	<u>338,873</u>	-	-	<u>338,873</u>
Total supporting services	<u>475,831</u>	<u>-</u>	<u>-</u>	<u>475,831</u>
Total expenses	<u>3,262,777</u>	<u>-</u>	<u>-</u>	<u>3,262,777</u>
Increase in net assets	2,182,033	-	-	2,182,033
Net assets at beginning of year	<u>1,061,292</u>	<u>13,892</u>	<u>-</u>	<u>1,075,184</u>
Net assets at end of year	<u>\$ 3,243,325</u>	<u>\$ 13,892</u>	<u>\$ -</u>	<u>\$ 3,257,217</u>

See accompanying notes to financial statements.

**TEN CHALLENGE OF TEXAS, INC.**  
Statement of Functional Expenses  
Year Ended December 31, 2012

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Salaries and benefits	\$ 776,630	\$ 386,794	\$ 29,109	\$ 415,903
Crafts and services	-	-	179,913	179,913
Curriculum	22,134	-	-	22,134
Depreciation	210,000	-	-	210,000
Events	-	-	261,248	261,248
Housing	258,203	-	-	258,203
Insurance	180,247	-	-	180,247
Bank fees	19,814	-	-	19,814
Interest expense	172,352	-	-	172,352
Maintenance and repairs	99,285	-	-	99,285
Office expense	-	27,231	-	27,231
Professional fees	-	61,460	-	61,460
Public relations	-	-	23,174	23,174
Transportation	13,638	-	-	13,638
Utilities	233,765	5,540	-	239,305
Other	(6,848)	-	-	(6,848)
<b>Total expenses</b>	<b>\$ 1,979,220</b>	<b>\$ 481,025</b>	<b>\$ 493,444</b>	<b>\$ 974,469</b>
				<b>\$ 2,953,689</b>

See accompanying notes to financial statements.

**TEEN CHALLENGE OF TEXAS, INC.**  
Statement of Functional Expenses  
Year Ended December 31, 2011

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Salaries and benefits	\$ 1,053,902	\$ 38,355	-	\$ 1,092,257
Crafts and services	-	-	43,309	43,309
Curriculum	29,635	-	-	29,635
Depreciation	220,000	-	-	220,000
Events	-	-	227,524	227,524
Housing	227,893	-	-	227,893
In-kind rent	525,000	-	-	525,000
Insurance	157,587	-	-	157,587
Bank fees	25,632	-	-	25,632
Interest expense	112,095	-	-	112,095
Maintenance and repairs	63,342	-	62,534	125,876
Office expense	-	29,732	-	29,732
Professional fees	-	68,871	-	68,871
Public relations	-	-	5,506	5,506
Transportation	14,167	-	-	14,167
Utilities	241,062	-	-	241,062
Other	116,631	-	-	116,631
<b>Total expenses</b>	<b>\$ 2,786,946</b>	<b>\$ 136,958</b>	<b>\$ 338,873</b>	<b>\$ 475,831</b>
				<b>\$ 3,262,777</b>

See accompanying notes to financial statements.

**TEEN CHALLENGE OF TEXAS, INC.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
(Decrease) increase in net assets	\$ (170,520)	\$ 2,182,033
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	210,000	220,000
Loss on disposal of assets	502,658	471,959
Donation of land and buildings	-	(1,857,347)
Gain on extinguishment of debt	(46,305)	(1,035,634)
Changes in operating assets and liabilities:		
Inventory	38,519	(9,775)
Other long-term assets	(25,903)	(20,399)
Accounts payable and accrued liabilities	(2,970)	(172,521)
Other long-term liabilities	39,155	-
Net cash provided by (used in) operating activities	544,634	(221,684)
<b>Cash flows from investing activities</b>		
Purchase of land, buildings and equipment	(392,175)	(166,850)
Additions to construction in progress	(110,086)	-
Proceeds from sale of assets	21,000	-
Repayments on notes receivable	69,900	217,581
Net cash (used in) provided by investing activities	(411,361)	50,731
<b>Cash flows from financing activities</b>		
Proceeds from notes payable	-	1,859,250
Payment of notes payable	(71,270)	(1,647,696)
Payments on capitalized lease obligations	(8,034)	(30,519)
Net cash (used in) provided by financing activities	(79,304)	181,035
Increase in cash and cash equivalents	53,969	10,082
Cash and cash equivalents at beginning of year	33,583	23,501
Cash and cash equivalents at end of year	\$ 87,552	\$ 33,583
<b>Supplemental disclosures of cash flow information:</b>		
In-kind contributions	\$ 46,305	\$ 525,000
Interest paid	\$ 172,352	\$ 112,095
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Land, buildings and equipment acquired through notes payable and capital leases	\$ 194,134	\$ -
Non-cash donation of land and buildings	\$ -	\$ 1,857,347
Non-cash donation of assets, net of liabilities assumed, for Freedom Hill property	\$ 230,917	\$ -
Issuance of note receivable in exchange for sale of property	\$ 625,000	\$ -

See accompanying notes to financial statements.

**TEEN CHALLENGE OF TEXAS, INC.**  
Notes to the Financial Statements  
December 31, 2012 and 2011

**(1) Organization and Summary of Significant Accounting Policies**

**Organization**

Teen Challenge of Texas, Inc. (the "Organization") operates alcohol and drug rehabilitation facilities. The Organization was founded in 1958 and provides services in San Antonio, Pasadena, Brenham, Magnolia and Azle, Texas. The program's purpose is to evangelize people who have life-controlling problems, and to initiate the discipleship process to the point where the student can function as a Christian in society, applying spiritually motivated biblical principles to relationships in the family, local church, vocation, and community. The Organization endeavors to help people become mentally sound, emotionally balanced, socially adjusted, physically well and spiritually alive.

**Summary of Significant Accounting Policies**

**(a) Basis of Presentation** - The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP).

**(b) Net Asset Classifications** - In accordance with GAAP, the Organization classifies its net assets into three categories as follows:

*Permanently Restricted* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

*Temporarily Restricted* - Net assets the use of which is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Temporarily restricted net assets include the portion of donor-restricted endowment funds that have not been appropriated for expenditure by the Organization.

*Unrestricted* - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be used for any purpose or designated for specific purposes by action of the Board of Directors.

**(c) Cash and Cash Equivalents** - For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and demand deposits.

**(d) Revenue Recognition** - Revenues from special events consist of fundraising events such as auctions, choir services, a golf tournament, banquets, and pancake breakfasts. Revenues from crafts and services are from sales of wood crafts, clothing, cookbooks, and jewelry. Revenues from the sale of these items are recognized upon acceptance of the goods by the customer and when payment is reasonably assured.

**(e) Contributions** - Contributions received (including unconditional promises to give) are recorded as unrestricted, temporarily restricted, or permanently restricted support in the period received depending on the existence and/or nature of any donor restrictions. Conditional promises to give (grants) are recognized as the conditions upon which they depend are substantially met. Promises to give are recognized as revenue only if sufficient evidence exists in the form of verifiable documentation that a promise was made and received.

**TEEN CHALLENGE OF TEXAS, INC.**

Notes to the Financial Statements

December 31, 2012 and 2011

(Continued)

The Organization reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. Donated assets are recorded at their estimated fair market values at the date of receipt.

The Organization reports in-kind contributions of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets or other assets with explicit restrictions that specify how the assets are to be used are recorded as restricted net assets. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets or other assets are placed in service. During the years ended December 31, 2012 and 2011, the Organization recorded \$0 and \$525,000 of in-kind rent contributions, respectively.

- (f) **Contributed Services** - During the years ended December 31, 2012 and 2011, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.
- (g) **Investments** - The Organization initially records investments at their acquisition cost if they are purchased and at fair value if they are received as a contribution. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Organization uses the equity method of accounting for other types of investments such as investments in limited partnerships. Under the equity method, the Organization initially records an investment at cost if purchased and at fair market value if received as a contribution. Subsequently, the carrying amount of other investments is increased to reflect the investor's share of income of the investee and is reduced to reflect the investor's share of losses or dividends. The Organization's share of income or losses is included in the Organization's investment income.

- (h) **Fair Value of Financial Instruments** - The carrying value of the financial instruments classified as current assets or liabilities, including cash and cash equivalents, notes receivable, other long-term assets, and, accounts payable and accrued liabilities, approximate their fair values due to their short maturities. The fair value of fixed-rate debt approximates the carrying amount because the rates and terms currently available to the Organization approximate the rate and terms on the existing debt.

**TEEN CHALLENGE OF TEXAS, INC.**

Notes to the Financial Statements

December 31, 2012 and 2011

(Continued)

For investments that are remeasured at fair value on a recurring basis, the Foundation discloses the hierarchy of the valuation based on the inputs used to determine the valuation. Financial instruments are considered Level 1 when their values are determined using quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date ("Level 1"). Level 2 inputs are inputs other than quoted prices included within Level 1, such as quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset, or inputs that are derived principally from or corroborated by observable market data by correlation or other means ("Level 2"). The Organization carried no Level 1 or 2 investments, as defined above, as of or during the years ended December 31, 2012 and 2011.

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable ("Level 3"). Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

- (i) **Inventory** - Inventory consists of raw materials for crafts and finished goods and is stated at the lower of cost or market using the first-in, first-out method.
- (j) **Property and Equipment** - Property and equipment greater than \$1,000 are recorded at cost and capitalized. Betterments and renewals, which add significantly to the utility or useful lives of the assets, are capitalized. Repairs and maintenance are charged to expenses. Gains and losses from normal retirements or dispositions are credited or charged to revenue.

Depreciation of property and equipment is provided at rates intended to distribute the cost of the assets over their estimated useful lives using the straight-line method. Major categories or depreciable assets and their estimated useful lives are:

<u>Asset Category</u>	<u>Estimated Useful Lives</u>
Building and improvements	25 – 40 years
Furniture and equipment	3 – 7 years
Vehicles	5 years

The Organization reviews long-lived assets for impairment, based on the estimated undiscounted future cash flows, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. No impairment charges were recorded in 2012 and 2011.

- (k) **Income Taxes** - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Unrelated business income, of which the Organization had none for the years ended December 31, 2012 and 2011, would be subject to federal income taxes. Accordingly, there is no provision or liability for federal income taxes in the accompanying financial statements.

**TEEN CHALLENGE OF TEXAS, INC.**

Notes to the Financial Statements

December 31, 2012 and 2011

(Continued)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by Internal Revenue Service. Management has analyzed the tax positions taken by the plan, and has concluded that as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to its fiscal year beginning January 1, 2008.

- (l) **Compensated Absences** - The Organization does not accrue for compensated absences as management believes that the impact of compensated absences is not material.
- (m) **Functional Allocation of Expenses** - The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, costs are allocated to the rehabilitation program, fundraising and management and general expenses based on actual use or estimated use based on management's estimates if actual use is not readily available.
- (n) **Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates include valuation of investments and depreciation.
- (o) **Concentrations of Credit Risk** - Certain financial instruments potentially subject the Organization to concentrations of credit risk. These financial instruments consist primarily of cash deposits. The cash policy of the Organization limits the amount of credit exposure, and requires that cash be placed with high credit quality financial institutions. At December 31, 2012, the Organization held no cash balances in financial institutions that exceeded the FDIC insurance coverage of \$250,000.
- (p) **Notes Receivable** - The Organization periodically enters into note receivable arrangements which are typically associated with sales of property. Notes receivable are considered impaired when it is probable that the Organization will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. The difference between the net value of the amounts expected to be received and the note balance is recognized as an impairment of the note. No impairments were recognized on notes receivable during the years ended December 31, 2012 and 2011, respectively.
- (q) **Subsequent Events** - The Organization evaluates events that occur subsequent to the statement of financial position date of periodic reports, but before financial statements are issued for periods ending on such dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the Organization's financial statements are issued. For the financial statements as of and for the year ending December 31, 2012, this date was November 6, 2013.

**TEEN CHALLENGE OF TEXAS, INC.**

Notes to the Financial Statements

December 31, 2012 and 2011

(Continued)

- (r) **New Accounting Standards** – In October 2012, the FASB issued Update No. 2012-05, “Statement of Cash Flows (Topic 230) – Not-for-Profit Entities: Classification of the Sales Proceeds of Donated Financial Assets in the Statement of Cash Flows (a consensus of the FASB Emerging Issues Task Force)”. It establishes and clarifies the guidance that not-for-profit entities apply for classifying cash receipts arising from the sale of certain donated financial assets, such as securities, as operating, investing, or financing cash flows. This standard is effective for fiscal years beginning after June 15, 2013. The Organization will adopt this standard beginning January 1, 2014 and does not expect it to have a material impact on its financial statements.

In April 2013, the FASB issued Update No. 2013-06, “Not-for-Profit Entities (Topic 958) - Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)”. It establishes the guidance that not-for-profit entities apply for recognizing and measuring revenue for services received from personnel of an affiliate. This standard is effective for fiscal years beginning after June 15, 2014. The Organization will adopt this standard beginning January 1, 2015 and does not expect it to have a material impact on its financial statements.

(2) **Inventory**

Inventory at December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>		<u>2011</u>
Raw materials - crafts	\$ 4,097	\$	53,662
Finished goods - crafts	30,487		24,868
Jewelry, clothing, and other	7,453		2,026
Total inventory	<u>\$ 42,037</u>	\$	<u>80,556</u>

(3) **Fair Value of Financial Instruments**

The Organization had an investment in a limited partnership that was classified as Level 3 during the year ended December 31, 2011. This investment was valued at \$13,892 as of December 31, 2011, and was sold in April 2012 for \$21,000. Estimated fair value was determined by the Organization based on a number of factors, including the cost of the investment to the Organization, as well as the current and projected operating performance.

**TEEN CHALLENGE OF TEXAS, INC.**

Notes to the Financial Statements

December 31, 2012 and 2011

(Continued)

The following table sets forth the changes in fair value of the Organization's investment measured using significant unobservable inputs during the years ended December 31, 2012 and 2011:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
Balance at December 31, 2010	\$	<u>13,892</u>
Interest, dividends or unrealized gains or losses, net		<u>-</u>
Balance at December 31, 2011		13,892
Sale of partnership interest		<u>(13,892)</u>
Balance at December 31, 2012	\$	<u><u>-</u></u>

**(4) Notes Receivable**

In June 2010, the Organization sold, in accordance with an interest-free note agreement, its Channelview property for \$457,500, with a down payment of \$60,000. A principal payment of \$125,000 was due and paid on November 20, 2010 and subsequent principal payments are payable in five equal semi-annual installments of \$54,500 each, with the first installment due and payable on May 19, 2011. The last installment was due and payable on May 19, 2013. As of December 31, 2012 and 2011, the balance of the note was \$0 and \$68,500, respectively. The remaining balance of the note was paid in full in February 2012.

In August 2012, the Organization sold its property in Driscoll, Texas for \$650,000 to an outside buyer at a loss of approximately \$471,000. In conjunction with this sale, the buyer entered into a \$625,000 note receivable agreement, which bears interest at 7.5% and matures in 5 years. As of December 31, 2012, the balance of the note was \$623,600.

**(5) Land, Buildings and Equipment**

Balances of major categories of land, buildings, and equipment as of December 31, 2012 and 2011 are as follows:

	<b>2012</b>		<b>2011</b>	
Land	\$	<u>654,842</u>	\$	<u>737,842</u>
Buildings and improvements		4,116,757		4,946,825
Furniture and equipment		722,647		563,079
Vehicles		<u>660,764</u>		<u>716,323</u>
Total land, buildings and equipment		6,155,010		6,964,069
Less accumulated depreciation		<u>(1,377,348)</u>		<u>(1,427,950)</u>
Net land, buildings and equipment	\$	<u><u>4,777,662</u></u>	\$	<u><u>5,536,119</u></u>

Depreciation expense was \$210,000 and \$220,000 for the years ended December 31, 2012 and 2011, respectively.

**TEEN CHALLENGE OF TEXAS, INC.**

Notes to the Financial Statements

December 31, 2012 and 2011

(Continued)

In December 2012, the Organization received a donation of the Freedom Hill property in Brenham, Texas. In connection with this transaction, the Organization assumed \$322,876 of net fixed assets and \$92,341 of long-term debt (see Note 6), as well as various miscellaneous assets and liabilities. In connection with this transaction, the Organization recorded a contribution of \$230,917.

In December 2011, the Organization received a donation of \$1,857,347 of land and buildings in Pasadena, Texas. This property had previously been used by the Organization since 2010 under an in-kind rent contribution agreement. The property was capitalized at its estimated fair value at the time of the donation.

**(6) Long-Term Debt**

Long-term debt consisted of the following at December 31, 2012 and 2011:

	2012	2011
Note payable to a lender, due in monthly installments of \$12,683, including interest, based on the minimum 5% certificate base (\$92,500 at funding) at the 7.25% adjustable interest rate and 30 year term, and collateralized by the assets of the Organization	\$ 1,828,998	\$ 1,847,719
Note payable to an investment company, due in monthly installments of \$1,582, including interest; final payment due June 2022, interest at 5.00% and collateralized by property of the Organization	143,312	154,812
Note payable to a church, due in monthly installments of \$2,746, including interest; final payment due April 2014, interest at 3.75% and collateralized by property of the Organization	42,780	73,501
Unsecured note payable to a related party, due in monthly installments of \$313.00, including interest; final payment due June 2017, interest at 3.99%	15,122	-
Unsecured note payable to a church, due in monthly installments of \$626.00, including interest; final payment due June 2017, interest at 3.99%	30,244	-
Notes payable to two individuals, due in monthly installments of \$625.91, including interest; final payment due March 2024, interest at 0% and collateralized by property of the Organization	92,135	-
Total long-term debt	2,152,591	2,076,032
Less: current portion of long-term debt	75,230	61,242
Long-term debt, less current portion	\$ 2,077,361	\$ 2,014,790

**TEEN CHALLENGE OF TEXAS, INC.**

Notes to the Financial Statements

December 31, 2012 and 2011

(Continued)

On March 17, 2011, the Organization entered into a note agreement with the Church Extension Plan for a \$1,859,250 note, of which \$1,600,000 was used to pay back the existing loan and line of credit to Wells Fargo Bank and \$250,000 was used to reduce outstanding accounts payable. The Organization recorded a gain on extinguishment of debt of \$956,828, consisting of \$557,627 from the Wells Fargo Bank note and \$399,201 from the line of credit. The remaining \$78,806 in gain from debt extinguishment recognized was the result of the forgiveness of certain outstanding credit card liabilities during 2011. This note had a balance of \$1,828,998 and \$1,847,719 as of December 31, 2012 and 2011, respectively, and was paid in full in June 2013.

In May 2013, the Organization entered into a thirty year note agreement with Assemblies of God Loan Fund, a related entity, for a \$1,925,000 note bearing interest at a rate of 4.99%, due in monthly installments of \$10,322. The note proceeds were used to refinance the Church Extension Plan note mentioned above. The interest rate is subject to market adjustments every five years after its origination. The new loan is collateralized by two of the Organization's properties, and may be prepaid at any time without penalty.

On March 11, 2011, the Organization entered into an agreement with Wells Fargo Bank to repay the outstanding note and line of credit. Under the agreement, Wells Fargo Bank accepted \$1,600,000 to relieve the note and line of credit which had a principal balance of \$2,157,626 and \$399,201, respectively as of March 11, 2011. The \$1,600,000 was paid on March 30, 2011, utilizing the new funding obtained on March 17, 2011. Wells Fargo Bank forgave the remaining unpaid principal balance of \$557,626.

On June 1, 2012, the Organization entered into an agreement for a \$51,000 loan to be repaid over a five-year period and bearing interest at a rate of 3.99%. The loan was forgiven in November 2012, and the Organization recorded a gain on debt extinguishment of \$46,305.

The aggregate future maturities of the notes payable are as follows:

2013	\$	75,230
2014		55,505
2015		46,853
2016		49,127
2017		44,879
Thereafter		<u>1,880,997</u>
Total	\$	<u>2,152,591</u>

**(7) Restrictions on Net Assets**

As of December 31, 2012 and 2011, temporarily restricted net assets consisted of \$0 and 13,892 represented by an investment in a limited partnership. This investment had a time restriction, and was sold in April 2012.

**(8) Related Party Transactions**

The Organization is a chapter of Teen Challenge USA. The Organization is required to pay Teen Challenge USA an accreditation fee of \$150 per center per month.

**TEEN CHALLENGE OF TEXAS, INC.**

Notes to the Financial Statements

December 31, 2012 and 2011

(Continued)

During the years ended December 31, 2012 and 2011, the Organization paid approximately \$10,500 and \$9,500, respectively, to Teen Challenge USA. The Organization was indebted to Teen Challenge USA in the amount of \$5,136 and \$9,065 as of December 31, 2012 and 2011, respectively.

During the years ended December 31, 2012 and 2011, various members of the Board of Directors and their affiliated organizations, made contributions to the Organization in the amount of \$3,714 and \$22,418, respectively. Additionally, a family member of a member of the Board of Directors made a \$17,000 loan to the Organization (see Note 6).

**(9) Leases**

The Organization has various equipment leases and leases a portion of its facilities pursuant to noncancellable operating lease agreements. Lease expense was approximately \$8,000 and \$34,000 for the years ended December 31, 2012 and 2011, respectively.

Minimum future rentals for the office space lease and equipment leases as of December 31, 2012 are as follows:

Year Ending December 31,	Capital Leases	Operating Leases
2013	\$ 6,253	\$ 6,120
2014	-	6,120
2015	-	6,120
2016	-	3,570
Future minimum lease payments	\$ 6,253	\$ 21,930
Current portion of capitalized lease obligations	6,253	
Long-term portion of capitalized lease obligations	-	

Amortization of assets held under capital leases is included with depreciation expense.

**(10) Subsequent Events**

In May 2013, the Organization entered into a conventional loan agreement with Assemblies of God Loan Fund, a related entity, in the amount of \$1,925,000 as a means for refinancing their original note payable with the Church Extension Plan. The note bears interest at a rate of 4.99%, which may be re-set every five years, and is payable in equal monthly installments of principal and interest in the amount of \$10,322.05. The note is set at a 30 year amortization period with a 20 year balloon period. The note may be prepaid without penalty.