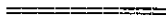


TEEN CHALLENGE OF ARKANSAS, INC.



HOT SPRINGS VILLAGE, ARKANSAS

SEPTEMBER 30, 2007

TEEN CHALLENGE OF ARKANSAS, INC.
HOT SPRINGS VILLAGE, ARKANSAS

AUDIT REPORT - TABLE OF CONTENTS
SEPTEMBER 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Teen Challenge of Arkansas, Inc.

We have audited the accompanying statements of financial position of Teen Challenge of Arkansas, Inc. as of September 30, 2007 and 2006, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audit 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Teen Challenge of Arkansas, Inc. as of September 30, 2007 and 2006 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



February 19, 2008

TEEN CHALLENGE OF ARKANSAS, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2007 AND 2006

EXHIBIT A
Page 2

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 56,654	\$ 63,936
Money Market Account	39,752	36,870
Pledges Receivable Less Allowance for Uncollectibles ((\$7,840 for 2007; \$7,790 for 2006))	11,945	19,970
Notes Receivable - Employees	80	983
Prepaid Insurance	7,411	6,888
TOTAL CURRENT ASSETS	115,842	128,647
LAND, BUILDINGS AND EQUIPMENT:		
Land	96,137	96,137
Buildings and Improvements	627,749	624,749
Furniture and Equipment	141,755	128,230
Vehicles	99,462	99,462
	965,103	948,578
Less Accumulated Depreciation	(619,322)	(586,838)
TOTAL LAND, BUILDINGS AND EQUIPMENT	345,781	361,740
OTHER ASSETS:		
Notes Receivable (Less Current Maturity, \$983)	-	1,567
Residential Lot and Other Real Estate	21,411	21,411
Utility Deposits	300	300
Buildings - Construction in Progress	221,299	129,564
TOTAL OTHER ASSETS	243,010	152,842
TOTAL ASSETS	\$ 704,633	\$ 643,229

See accompanying Notes to Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.
 STATEMENTS OF FINANCIAL POSITION
 SEPTEMBER 30, 2007 AND 2006

EXHIBIT A-1
 Page 3

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES:		
Accounts Payable	\$ 27,713	\$ 11,740
Payroll Taxes	3,481	3,266
Student Deposits	6,333	3,957
Notes Payable	268,222	15,346
Lease Payable	2,438	2,157
TOTAL CURRENT LIABILITIES	<u>308,187</u>	<u>36,466</u>
LONG-TERM LIABILITIES:		
Notes Payable	16,249	235,498
Lease Payable	217	2,654
TOTAL LONG-TERM LIABILITIES	<u>16,466</u>	<u>238,152</u>
TOTAL LIABILITIES	<u>324,653</u>	<u>274,618</u>
NET ASSETS:		
Unrestricted:		
Undesignated	300,142	241,343
Net Investment in Fixed Assets	58,655	106,085
Board Designated	21,183	21,183
TOTAL NET ASSETS	<u>379,980</u>	<u>368,611</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 704,633</u>	<u>\$ 643,229</u>

See accompanying Notes to Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.
STATEMENTS OF ACTIVITIES
FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

EXHIBIT B
Page 4

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
SUPPORT AND REVENUE:				
Contributions	\$ 556,464	\$ 5,655	\$ 562,119	\$ 576,994
Contract Services	64,462	-	64,462	70,303
Induction Fees	36,914	-	36,914	30,095
Sale of Items	13,297	-	13,297	24,749
Student Re-entry Income	6,408	-	6,408	8,888
Miscellaneous Income	1,966	65,844	67,810	55,063
Interest and Dividend Income	642	-	642	863
TOTAL	<u>680,153</u>	<u>71,499</u>	<u>751,652</u>	<u>766,955</u>
NET ASSETS RELEASED FROM RESTRICTIONS:				
Satisfaction of Usage Restriction	43,499	(43,499)	-	-
TOTAL SUPPORT AND REVENUE	<u>723,652</u>	<u>28,000</u>	<u>751,652</u>	<u>766,955</u>
EXPENSES:				
Program Services	617,425	-	617,425	554,812
Management and General	65,853	-	65,853	71,994
Fund Raising	57,005	-	57,005	71,228
TOTAL EXPENSES	<u>740,283</u>	<u>-</u>	<u>740,283</u>	<u>698,034</u>
CHANGE IN NET ASSETS	<u>(16,631)</u>	<u>28,000</u>	<u>11,369</u>	<u>68,921</u>
NET ASSETS, BEGINNING OF YEAR	367,111	1,500	368,611	299,690
NET ASSETS, END OF YEAR	<u>\$ 350,480</u>	<u>\$ 29,500</u>	<u>\$ 379,980</u>	<u>\$ 368,611</u>

See accompanying Notes to Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.
 STATEMENTS OF CASH FLOWS
 FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

EXHIBIT C
 Page 5

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Donors	\$ 681,282	\$ 686,675
Cash Received from Contract Services	64,462	70,303
Interest and Dividends Received	642	863
Cash Paid to Employees and Suppliers	(654,969)	(648,793)
Interest Paid	(21,498)	(15,180)
NET CASH FLOW FROM OPERATING ACTIVITIES	69,919	93,868
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Paid for Building and Equipment	(16,525)	(48,016)
Cash Paid for Construction in Progress	(91,735)	(129,564)
Received on Notes Receivable	2,470	2,750
Disbursed on Notes Receivable	-	(3,761)
NET CASH FLOW FROM INVESTING ACTIVITIES	(105,790)	(178,591)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Debt	39,913	230,330
Cash Paid on Debt	(8,442)	(131,593)
NET CASH FLOW FROM FINANCING ACTIVITIES	31,471	98,737
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,400)	14,014
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	100,806	86,792
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 96,406	\$ 100,806

See accompanying Notes to Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.
 STATEMENTS OF CASH FLOWS
 FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

EXHIBIT C-1
 Page 6

Reconciliation of net change in net assets to net cash flow from operating activities:

	2007	2006
CHANGE IN NET ASSETS	\$ 11,369	\$ 68,921
ADJUSTMENTS TO CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	32,484	34,647
Bad Debts	13,291	742
Change in Assets and Liabilities:		
Pledges Receivable / Accounts Receivable	(5,266)	(9,114)
Prepaid Insurance	(523)	4,230
Accounts Payable	15,973	(6,822)
Accrued Liabilities	2,591	1,264
TOTAL ADJUSTMENTS	58,550	24,947
NET CASH FLOW FROM OPERATING ACTIVITIES	\$ 69,919	\$ 93,868
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Donated Campers	\$ 12,500	\$ 7,507

See accompanying Notes to Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.
 STATEMENTS OF FUNCTIONAL EXPENSES
 FOR YEARS ENDED SEPTEMBER 30, 2007 AND 2006

EXHIBIT D
 Page 7

	Supporting Services			2007 Total	2006 Total
	Program Services	Management and General	Fund Raising		
EXPENSES:					
Salaries and Related Expenses:					
Salaries and Executive Director	\$ 150,478	\$ 19,408	\$ 11,594	\$181,480	\$ 169,427
Payroll Taxes	14,035	1,651	825	16,511	14,544
Employee Benefits	11,581	640	527	12,748	6,067
Total Salaries and Related Expenses	<u>176,094</u>	<u>21,699</u>	<u>12,946</u>	<u>210,739</u>	<u>190,038</u>
Fund Raising	3,134	-	26,195	29,329	33,431
Regional Conference	6,767	-	-	6,767	8,787
Street Reach Program	1,864	-	-	1,864	467
VFD Program	3,643	-	-	3,643	8,433
Staff Development	11,561	1,360	680	13,601	9,800
Utilities and Telephone	78,140	5,713	742	84,595	89,152
Office Expense	17,911	8,955	2,985	29,851	19,873
Printing	2,146	2,146	4,292	8,584	9,341
Postage	4,273	4,273	8,546	17,092	12,203
Transportation	33,418	3,310	619	37,347	39,820
Food and Kitchen Expense	32,645	-	-	32,645	28,673
Home Maintenance	22,191	-	-	22,191	26,024
Cost of Contract Services	22,869	-	-	22,869	28,787
Bad Debts	13,291	-	-	13,291	742
Home Supplies and Equipment	41,024	-	-	41,024	51,565
Education	3,063	-	-	3,063	3,329
Travel	7,077	2,705	-	9,782	7,011
Outreach	5,946	-	-	5,946	3,861
Student Assistance	13,412	-	-	13,412	12,597
Missions	9,760	-	-	9,760	9,925
Insurance	33,117	3,283	-	36,400	31,216
Rent and Storage	9,529	-	-	9,529	7,908
Depreciation	22,739	9,745	-	32,484	34,647
Professional Fees	5,332	2,285	-	7,617	6,738
Interest	21,498	-	-	21,498	15,180
Donation - Committed to Freedom Ministries, Inc.	5,921	-	-	5,921	344
Miscellaneous	9,060	379	-	9,439	8,142
TOTAL EXPENSES (To Exhibit B)	<u><u>\$ 617,425</u></u>	<u><u>\$ 65,853</u></u>	<u><u>\$ 57,005</u></u>	<u><u>\$740,283</u></u>	<u><u>\$ 698,034</u></u>

See accompanying Notes to Financial Statements.

TEEN CHALLENGE OF ARKANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Page 8

Note 1. Summary of Significant Accounting Policies:

Teen Challenge of Arkansas, Inc. is a non-profit corporation with a primary purpose to evangelize and win young people to Jesus Christ and for the religious and educational rehabilitation of young people who may benefit from its specialized ministry. The program targets young male adults. The beneficiaries' participation in the program is voluntary, and they must abide by rules established by the Organization to participate in the program.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

The major portion of revenues is derived from contributions received from Assembly of God churches and their members. The Organization also conducts various work projects to earn revenue. The work projects consist of providing labor for businesses and individuals in the Hot Springs area on a fee and hourly basis.

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

Unconditional promises to give have been recorded under SFAS 116 based on pledges outstanding as of September 30, 2007. An allowance for uncollectibles has been established.

Note 2. Land, Buildings and Equipment:

The Organization follows the practice of capitalizing expenditures for land, buildings, and equipment with an estimated useful life of three years or more; the fair value of donated fixed assets are similarly capitalized. Depreciation is computed on a straight-line basis over the estimated lives generally as follows:

Buildings & Improvements	10 - 39 Years
Furniture & Equipment	3 - 10 Years
Vehicles	3 - 5 Years

TEEN CHALLENGE OF ARKANSAS, INC.
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2007

Note 3. Capital Assets:

Capital Asset activity for the year ended September 30, 2007 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
CAPITAL ASSETS AT HISTORICAL COST:				
Land	\$ 96,137	\$ -	\$ -	\$ 96,137
Buildings and Improvements	624,749	3,000	-	627,749
Furniture and Equipment	128,230	13,525	-	141,755
Vehicles	99,462	-	-	99,462
TOTAL CAPITAL ASSETS AT HISTORICAL COST	948,578	16,525	-	965,103
Less: Accumulated Depreciation	(586,838)	(32,484)		(619,322)
TOTALS	\$361,740	\$(15,959)	\$ -	\$345,781

Note 4. Long Term Debt:

Long Term Debt consists of:

	Current Maturity	Long-Term Maturity	Total	Collateral
Simmons First Bank (Interest Only @ 7.75%)	\$ 263,673	\$ -	\$ 263,673	Real Estate/ Building
Bucknell and June Smedley (Payable \$341 Monthly Including 7% Interest)	3,560	1,011	4,571	Real Estate/ Mobile Home
Gary Jennings/Greentree Financial (Payable \$197 Monthly Including 8.75% Interest)	989	15,238	16,227	Mobile Home
TOTALS	\$ 268,222	\$ 16,249	\$ 284,471	

TEEN CHALLENGE OF ARKANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Note 4. Long Term Debt: (Continued)

The debt service requirements for the next five years are:

<u>Year</u>	<u>Amount</u>
2007-08	\$ 268,222
2008-09	2,090
2009-10	1,177
2010-11	1,284
2011-12	1,401

Teen Challenge of Arkansas, Inc. was making interest only payments on the note payable to Simmons First Bank. The Organization is not required to make principle reduction payments until construction on Highway 7 building is complete. Teen Challenge of Arkansas, Inc. anticipates construction to end on May 20, 2008, and monthly principle and interest payments to start on June 20, 2008. At that time, the Organization will start making monthly payments of \$2,583 at 7.75% interest.

Note 5. Donated Use of Space, Materials, and Services:

No amounts have been reflected in the statements for donated materials and services at date of receipt inasmuch as no objective basis is available to measure the value of such donations. Donated items which are sold at auction are recorded as sales at the date of sale. The Organization is allowed free use of a cabin located at a nearby campground. No amounts are reflected in the statements for the use of this asset.

Note 6. FDIC Coverage:

Teen Challenge of Arkansas, Inc. has a total of three demand accounts in three separate financial institutions. These three financial institutions are FDIC Insured, and offer \$100,000 insurance on bank deposits. Teen Challenge of Arkansas, Inc.'s accounts do not exceed this coverage offered.

Note 7. Leases:

The Organization rents a house from the Assemblies of God for \$100 per month on a month-to-month basis. A storage building is rented also on a month-to-month basis at a cost of \$40 per month.

In October of 2006 Teen Challenge of Arkansas, Inc. entered into a lease purchase agreement with Dolphin Capital. At the end of the lease agreement, the Organization can purchase a copy machine for \$1. The lease is 36 monthly payments of \$330, which consists of \$71 for a service contract, \$25 for sales and use taxes, \$15 for insurance, and \$219 in principle and interest payments.

The lease purchase agreement pays out over the next two years as follows:

<u>Year</u>	<u>Amount</u>
2007-08	\$ 2,438
2008-09	217

TEEN CHALLENGE OF ARKANSAS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Page 11

Note 7. Leases: (Continued)

The lease purchase agreement was for a copy machine valued at \$6,570 which has been capitalized and will be depreciated over a five-year period.

Note 8. Fair Value of Financial Instruments:

The Organization's financial instruments include cash and notes payable. The Organization estimates that the fair value of all financial instruments at September 30, 2007, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

Note 9. Functional Allocation of Expenses:

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Note 10. General Comments:

Teen Challenge of Arkansas, Inc. is a non-profit organization within the meaning of Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes and is not a private foundation within the meaning of Section 509(A) of the Internal Revenue Code. There was no unrelated business income for 2007 or 2006.