



TEEN CHALLENGE OF TEXAS, INC.

Financial Statements
(With Independent Auditors' Report Thereon)

December 31, 2013 and 2012



PMB Helin Donovan
CERTIFIED PUBLIC ACCOUNTANTS

TEEN CHALLENGE OF TEXAS, INC.

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December 31, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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



Dallas, Texas
March 4, 2015

TEEN CHALLENGE OF TEXAS, INC.

Statements of Financial Position

As of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,335	\$ 87,552
Notes receivable	8,427	6,714
Inventory	<u>30,988</u>	<u>42,037</u>
Total current assets	82,750	136,303
Land, buildings and equipment, net	4,984,658	4,777,662
Construction in progress	-	110,086
Notes receivable, less current portion	609,809	616,886
Other long-term assets	<u>131,064</u>	<u>46,302</u>
Total assets	<u>\$ 5,808,281</u>	<u>\$ 5,687,239</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 257,091	\$ 402,543
Current portion of long-term debt	70,678	75,230
Current portion of capitalized lease obligations	<u>-</u>	<u>6,253</u>
Total current liabilities	327,769	484,026
Long-term debt, less current portion	2,181,472	2,077,361
Other long-term liabilities	<u>39,155</u>	<u>39,155</u>
Total liabilities	<u>2,548,396</u>	<u>2,600,542</u>
Net assets:		
Unrestricted	<u>3,259,885</u>	<u>3,086,697</u>
Total net assets	<u>3,259,885</u>	<u>3,086,697</u>
Total liabilities and net assets	<u>\$ 5,808,281</u>	<u>\$ 5,687,239</u>

See accompanying notes to financial statements.

TEEN CHALLENGE OF TEXAS, INC.

Statement of Activities

Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues				
Individuals' contributions	\$ 62,718	\$ -	\$ -	\$ 62,718
Church contributions	263,136	-	-	263,136
Other contributions	592,367	-	-	592,367
Special events	818,960	-	-	818,960
Crafts and services	1,024,848	-	-	1,024,848
Thrift store sales	189,463	-	-	189,463
Student fees	266,035	-	-	266,035
Rental income	141,605	-	-	141,605
Other income	368,392	-	-	368,392
Gain on sale of assets	<u>2,773</u>	<u>-</u>	<u>-</u>	<u>2,773</u>
Total support and revenues	<u>3,730,297</u>	<u>-</u>	<u>-</u>	<u>3,730,297</u>
Expenses				
Program services:				
Rehabilitation	<u>2,444,579</u>	<u>-</u>	<u>-</u>	<u>2,444,579</u>
Total program services	<u>2,444,579</u>	<u>-</u>	<u>-</u>	<u>2,444,579</u>
Supporting services:				
Management and general	602,504	-	-	602,504
Fundraising	<u>510,026</u>	<u>-</u>	<u>-</u>	<u>510,026</u>
Total supporting services	<u>1,112,530</u>	<u>-</u>	<u>-</u>	<u>1,112,530</u>
Total expenses	<u>3,557,109</u>	<u>-</u>	<u>-</u>	<u>3,557,109</u>
Increase in net assets	173,188	-	-	173,188
Net assets at beginning of year	<u>3,086,697</u>	<u>-</u>	<u>-</u>	<u>3,086,697</u>
Net assets at end of year	<u>\$ 3,259,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,259,885</u>

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>
Support and Revenues				
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
Student fees	204,045	-	-	204,045
Rental income	23,098	-	-	204,045
Other income	231,082	-	-	(29,271)
Gain on extinguishment of debt	46,305	-	-	46,305
Loss on disposal of assets, net	(502,658)	-	-	(29,271)
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>3,177,150</u>
Expenses				
Program services:				
Rehabilitation	1,979,220	-	-	1,979,220
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 Functional Expenses

Year Ended December 31, 2013

	Program Services		Supporting Services		
	Rehabilitation	Management and General	Fundraising	Total Supporting Services	
				Total	Total
Salaries and benefits	\$ 1,005,423	\$ 495,216	\$ 46,259	\$ 541,475	\$ 1,546,898
Crafts and services	-	-	183,531	183,531	183,531
Curriculum	5,375	-	-	-	5,375
Depreciation	244,803	-	-	-	244,803
Events	-	-	253,325	253,325	253,325
Housing	383,061	-	-	-	383,061
Insurance	149,934	-	-	-	149,934
Bank fees	26,004	-	-	-	26,004
Interest expense	134,904	-	-	-	134,904
Maintenance and repairs	201,480	-	-	-	201,480
Office expense	-	60,513	-	60,513	60,513
Professional fees	-	40,300	-	40,300	40,300
Public relations	-	-	15,289	15,289	15,289
Transportation	10,597	-	-	-	10,597
Utilities	293,657	6,475	-	6,475	300,132
Other	(10,659)	-	11,622	11,622	963
Total expenses	\$ 2,444,579	\$ 602,504	\$ 510,026	\$ 1,112,530	\$ 3,557,109

See accompanying notes of financial statements.

TEEN CHALLENGE OF TEXAS, INC.

Statement of Functional Expenses

Year Ended December 31, 2012

	Program Services		Supporting Services		
	Rehabilitation	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 776,630	\$ 386,794	\$ 29,109	\$ 415,903	\$ 1,192,533
Crafts and services	-	-	179,913	179,913	179,913
Curriculum	22,134	-	-	-	22,134
Depreciation	210,000	-	-	-	210,000
Events	-	-	261,248	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	27,231
Professional fees	-	61,460	-	61,460	61,460
Public relations	-	-	23,174	23,174	23,174
Transportation	13,638	-	-	-	13,638
Utilities	233,765	5,540	-	5,540	239,305
Other	(6,848)	-	-	-	(6,848)
Total expenses	\$ 1,979,220	\$ 481,025	\$ 493,444	\$ 974,469	\$ 2,953,689

See accompanying notes to financial statements.

TEEN CHALLENGE OF TEXAS, INC.

Statements of Cash Flows

Years Ended December 31, 2013 & 2012

	2013	2012
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 173,188	\$ (170,520)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	244,803	210,000
Gain (loss) on disposal of assets	(2,773)	502,658
Gain on extinguishment of debt	-	(46,305)
Changes in operating assets and liabilities:		
Inventory	11,049	38,519
Other long-term assets	(84,762)	(25,903)
Accounts payable and accrued liabilities	(151,367)	(2,970)
Other long-term liabilities	-	39,155
Net cash provided by operating activities	190,138	544,634
Cash flows from investing activities		
Purchase of land, buildings and equipment	(334,336)	(392,175)
Additions to construction in progress	-	(110,086)
Proceeds from sale of assets	-	21,000
Repayments on notes receivable	5,364	69,900
Net cash used in investing activities	(328,972)	(411,361)
Cash flows from financing activities		
Proceeds from notes payable	2,016,000	-
Payment of notes payable	(1,915,130)	(71,270)
Payments on capitalized lease obligations	(6,253)	(8,034)
Net cash provided by (used in) financing activities	94,617	(79,304)
Decrease (increase) in cash and cash equivalents	(44,217)	53,969
Cash and cash equivalents at beginning of year	87,552	33,583
Cash and cash equivalents at end of year	\$ 43,335	\$ 87,552
Supplemental disclosures of cash flow information:		
In-kind contributions	\$ -	\$ 46,305
Interest paid	\$ 134,904	\$ 172,352
Supplemental disclosure of non-cash investing and financing		
Land, buildings and equipment acquired through notes payable and capital leases	\$ -	\$ 194,134
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, 2013 and 2012

NOTE 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

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).

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. The Organization had no permanently restricted net assets as of December 31, 2013 and 2012.

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. The Organization had no temporarily restricted net assets as of December 31, 2013 and 2012.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and demand deposits.

Revenue Recognition

Revenues from special events consist of fundraising events such as auctions, choir services, a golf tournament, banquets, and pancake breakfasts, recognized at the time of service. 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.

TEEN CHALLENGE OF TEXAS, INC.
Notes to the Financial Statements - Continued
December 31, 2013 and 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition - 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.

Contributed Services

During the years ended December 31, 2013 and 2012, 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.

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.

Fair Value of Financial Instruments

The carrying value of the financial instruments classified as current assets or liabilities, including cash and cash equivalents, current notes receivable, 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 - Continued
December 31, 2013 and 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value of Financial Instruments - 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, 2013 and 2012.

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.

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.

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 of 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
Leasehold improvements	shorter of useful life or lease term

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 2013 and 2012.

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, 2013 and 2012, 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 - Continued
December 31, 2013 and 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes - 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, 2013 and 2012, 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 generally no longer subject to tax examinations relating to U.S. Federal tax returns for three years after they were filed.

Compensated Absences

The Organization does not accrue for compensated absences as management believes that the impact of compensated absences is not material.

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.

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.

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, 2013, the Organization held no cash balances in financial institutions that exceeded the FDIC insurance coverage of \$250,000.

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, 2013 and 2012, respectively.

TEEN CHALLENGE OF TEXAS, INC.
Notes to the Financial Statements - Continued
December 31, 2013 and 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Accounting Standards

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.

NOTE 2 - INVENTORY

Inventory at December 31, 2013 and 2012 consisted of the following:

		<u>2013</u>		<u>2012</u>
Raw materials	\$	4,774	\$	4,097
Finished goods		26,214		37,940
Total inventory	\$	<u>30,988</u>	\$	<u>42,037</u>

NOTE 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.

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:

		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, 2012		13,892
Sale of partnership interest		<u>(13,892)</u>
Balance at December 31, 2013	\$	<u><u>-</u></u>

TEEN CHALLENGE OF TEXAS, INC.
Notes to the Financial Statements - Continued
December 31, 2013 and 2012

NOTE 4 – NOTE RECEIVABLE

In June 2010, the Organization sold its Channelview property for \$457,500, with a down payment of \$60,000 and in accordance with an interest-free note agreement. 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 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. 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.

The aggregate future maturities of the note receivable are as follows:

2014	\$		8,427
2015			7,874
2016			8,526
2017			593,409
Total	\$		<u>618,236</u>

NOTE 5 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment as of December 31, 2013 and 2012 are as follows:

		<u>2013</u>		<u>2012</u>
Land	\$	654,842	\$	654,842
Buildings and improvements		4,283,918		4,116,757
Leasehold improvements		178,116		-
Furniture and equipment		747,934		722,647
Vehicles		741,999		660,764
Total land, buildings and equipment		<u>6,606,809</u>		<u>6,155,010</u>
Less accumulated depreciation		(1,622,151)		(1,377,348)
Net land, buildings and equipment	\$	<u>4,984,658</u>	\$	<u>4,777,662</u>

Depreciation expense was \$244,803 and \$210,000 for the years ended December 31, 2013 and 2012, respectively.

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.

TEEN CHALLENGE OF TEXAS, INC.
Notes to the Financial Statements - Continued
December 31, 2013 and 2012

NOTE 6 – LONG TERM DEBT

Long-term debt consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
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
Note payable to a lender, due in monthly installments of \$10,322, including interest; final balloon payment due June 2033, interest at 4.99%, collateralized by the assets of the Organization	2,001,720	-
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	131,223	143,312
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	10,788	42,780
Unsecured note payable to a related party, due in monthly installments of \$313, including interest; final payment due June 2017, interest at 3.99%	1,884	15,122
Unsecured note payable to a church, due in monthly installments of \$626, including interest; final payment due June 2017, interest at 3.99%	23,848	30,244
Notes payable to two individuals, due in monthly installments of \$626, including interest; final payment due March 2024, interest at 0% and collateralized by property of the Organization	82,687	92,135
Total long-term debt	<u>2,252,150</u>	<u>2,152,591</u>
Less: current portion of long-term debt	70,678	75,230
Long-term debt, less current portion	<u>\$ 2,181,472</u>	<u>\$ 2,077,361</u>

On March 17, 2011, the Organization entered into a note agreement with the Church Extension Plan (CEP) for a \$1,859,250 note. This note had a balance of \$1,828,998 as of December 31, 2012 and was paid in full in June 2013.

TEEN CHALLENGE OF TEXAS, INC.
Notes to the Financial Statements - Continued
December 31, 2013 and 2012

NOTE 6 – LONG TERM DEBT - CONTINUED

In May 2013, the Organization entered into a thirty year note agreement with Assemblies of God Loan Fund (AG), a related entity, for a \$2,016,000 note bearing an initial interest rate of 4.99%, due in monthly installments of \$10,322. The note proceeds were used to refinance the CEP note. The interest rate is subject to market adjustments every five years after its origination, limited to 1% change every five years. The loan is amortized over thirty years with a 20 year balloon payment. The loan is collateralized by two of the Organization’s properties, and may be prepaid at any time without penalty. The loan has a covenant in default which has been waived by AG.

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 long-term debt are as follows:

2014	\$	70,140
2015		59,950
2016		62,557
2017		60,854
2018		60,363
Thereafter		<u>1,938,286</u>
Total	\$	<u>2,252,150</u>

NOTE 7 – 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.

During the years ended December 31, 2013 and 2012, the Organization paid approximately \$9,600 and \$10,500, respectively, to Teen Challenge USA. The Organization was indebted to Teen Challenge USA in the amount of \$1,628 and \$5,136 as of December 31, 2013 and 2012, respectively.

During the years ended December 31, 2013 and 2012, various members of the Board of Directors and their affiliated organizations, made contributions to the Organization in the amount of \$39,278 and \$3,714, respectively. Additionally, a family member of a member of the Board of Directors made a \$17,000 loan to the Organization during the year ended December 31, 2012 (see Note 6).

TEEN CHALLENGE OF TEXAS, INC.
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NOTE 8 - LEASES

The Organization has various equipment leases and leases a portion of its facilities pursuant to non-cancellable operating lease agreements. Lease expense was approximately \$31,000 and \$8,000 for the years ended December 31, 2013 and 2012, respectively.

Minimum future rentals for non-cancellable office space and equipment leases are as follows:

Year Ending December 31,	Operating Leases
2014	\$ 93,633
2015	167,876
2016	168,954
2017	115,884
2018	115,884
Thereafter	154,780
Future minimum lease payments	<u>\$ 817,011</u>

Future lease commitments include two leases that were entered into subsequent to the year ended December 31, 2013, one for the thrift store in Pasadena, Texas and the other for copiers.

NOTE 9 – SUBSEQUENT EVENTS

In June 2014, the Organization changed its name to Adult & Teen Challenge of Texas. In July 2014, the Organization purchased a mobile home for \$55,000 to be used a re-entry home for women in San Antonio, Texas.

In February 2014, a new thrift store was opened in Azle, Texas. In February 2015, a new thrift store was opened in Pasadena, Texas.

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, 2013, this date was March 4, 2015.