



Adult and Teen Challenge of Texas

Financial Statements
(With Report of Independent Auditor Thereon)

December 31, 2016 and 2015

PMB Helin Donovan

ADULT AND TEEN CHALLENGE OF TEXAS

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December 31, 2016 and 2015

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Report of Independent Auditor

To the Board of Directors of
Adult and Teen Challenge of Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Adult and Teen Challenge of Texas (the "Organization"), which comprise the statements of financial position as of December 31, 2016 and 2015, 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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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 auditor's 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 the Organization as of December 31, 2016 and 2015, 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
April 20, 2018

ADULT AND TEEN CHALLENGE OF TEXASStatements of Financial Position
As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 61,157	\$ 44,741
Current portion of notes receivable	39,144	7,315
Investments, at fair value	97,500	97,500
Total current assets	<u>197,801</u>	<u>149,556</u>
Land, buildings and equipment, net	5,006,087	4,874,766
Notes receivable, less current portion	558,175	597,319
Other long-term assets	<u>37,243</u>	<u>30,936</u>
Total assets	<u>\$ 5,799,306</u>	<u>\$ 5,652,577</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 303,336	\$ 196,892
Current portion of long-term debt	<u>105,997</u>	<u>93,916</u>
Total current liabilities	409,333	290,808
Long-term debt, less current portion and unamortized deferred loan costs	2,128,126	2,042,832
Other long-term liabilities	<u>39,155</u>	<u>39,155</u>
Total liabilities	2,576,614	2,372,795
Net assets-unrestricted	<u>3,222,692</u>	<u>3,279,782</u>
Total liabilities and net assets	<u>\$ 5,799,306</u>	<u>\$ 5,652,577</u>

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Activities

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Support and Revenues		
Contributions	\$ 845,125	\$ 496,935
Special events, net	670,773	665,767
Store sales, crafts and services, net	1,068,176	1,024,484
Student tuition and fees	586,431	519,139
Investment income	45,142	45,666
Other income	328,547	309,399
Total support and revenues	<u>3,544,194</u>	<u>3,061,390</u>
Expenses		
Program services:		
Rehabilitation	<u>2,569,026</u>	<u>2,392,437</u>
Total program services	<u>2,569,026</u>	<u>2,392,437</u>
Supporting services:		
Management and general	722,028	517,960
Fundraising	<u>310,230</u>	<u>304,228</u>
Total supporting services	<u>1,032,258</u>	<u>822,188</u>
Total expenses	<u>3,601,284</u>	<u>3,214,625</u>
Change in unrestricted net assets	(57,090)	(153,235)
Unrestricted net assets at beginning of year	<u>3,279,782</u>	<u>3,433,017</u>
Unrestricted net assets at end of year	<u>\$ 3,222,692</u>	<u>\$ 3,279,782</u>

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statement of Functional Expenses

Year Ended December 31, 2016

	Program Services		Supporting Services		
	Rehabilitation	Management and General	Fundraising	Total Supporting Services	
				Total	Total
Salaries and benefits	\$ 1,064,377	\$ 370,127	\$ 263,286	\$ 633,413	\$ 1,697,790
Depreciation	236,427	-	-	-	236,427
Housing	456,451	-	-	-	456,451
Insurance	131,427	45,702	32,510	78,212	209,639
Interest expense	-	113,795	-	113,795	113,795
Maintenance, repairs and other occupancy costs	641,929	54,943	-	54,943	696,872
Office expense	-	19,237	-	19,237	19,237
Professional fees	-	87,131	-	87,131	87,131
Public relations	-	-	14,434	14,434	14,434
Travel and entertainment	-	14,482	-	14,482	14,482
Other operating costs	38,415	16,611	-	16,611	55,026
Total expenses	\$ 2,569,026	\$ 722,028	\$ 310,230	\$ 1,032,258	\$ 3,601,284

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statement of Functional Expenses

Year Ended December 31, 2015

	Program Services		Supporting Services		
	Rehabilitation	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 879,959	\$ 357,624	\$ 251,559	\$ 609,183	\$ 1,489,142
Depreciation	220,407	-	-	-	220,407
Housing	426,721	-	-	-	426,721
Insurance	116,994	47,547	33,446	80,993	197,987
Interest expense	111,641	-	-	-	111,641
Maintenance, repairs and other occupancy costs	556,798	35,253	-	35,253	592,051
Office expense	-	18,367	-	18,367	18,367
Professional fees	-	26,656	-	26,656	26,656
Public relations	-	-	19,223	19,223	19,223
Travel and entertainment	-	11,078	-	11,078	11,078
Other operating costs	79,917	21,435	-	21,435	101,352
Total expenses	\$ 2,392,437	\$ 517,960	\$ 304,228	\$ 822,188	\$ 3,214,625

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (57,090)	\$ (153,235)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	236,427	220,407
Loss on disposal of assets	5,169	53,929
Changes in operating assets and liabilities:		
Other assets	(6,307)	20,340
Accounts payable and accrued liabilities	106,444	17,567
Net cash provided by operating activities	<u>284,643</u>	<u>159,008</u>
Cash flows from investing activities		
Purchase of land, buildings and equipment	(372,917)	(163,140)
Proceeds from sale of assets	-	3,025
Repayments from notes receivable	7,315	6,787
Net cash used in investing activities	<u>(365,602)</u>	<u>(153,328)</u>
Cash flows from financing activities		
Proceeds from notes payable	222,500	161,237
Payment of notes payable	(125,125)	(182,132)
Net cash used in financing activities	<u>97,375</u>	<u>(20,895)</u>
Change in cash and cash equivalents	16,416	(15,215)
Cash and cash equivalents at beginning of year	44,741	59,956
Cash and cash equivalents at end of year	<u>\$ 61,157</u>	<u>\$ 44,741</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 113,795</u>	<u>\$ 111,641</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Adult and Teen Challenge of Texas (the “Organization”) operates faith-based chemical dependency treatment programs. The Organization was founded in 1968 and provides services in San Antonio, Pasadena, Brenham, Magnolia, Bastrop and Azle, Texas. The Organization’s mission is to provide youth, adults, and families with an effective and comprehensive Christian faith-based solution to life-controlling addictions in order to become productive members of society. Their vision is to put hope within reach of every addict.

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, 2016 and 2015.

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. The Organization had no temporarily restricted net assets as of December 31, 2016 and 2015.

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 - Cash and cash equivalents include highly liquid investments with an original maturity of three months or less at time of purchase.

Revenue Recognition - Revenues from special events consist of fundraising events such as drug awareness teams, choir services, golf tournaments, banquets, and a 5K race, recognized at the time of service.

Revenues from the thrift store sales are recognized upon acceptance of the goods by the customer and when payment is reasonably assured.

Rental income is derived from staff and re-entry residents living on the Organization’s property and is recognized at the time of use.

Students pay fees for tuition which is recognized over the period of service.

Other income is primarily from food stamps from the residents who are eligible for this subsidy. The revenue from food stamps is recognized as they are redeemed.

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.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

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. Crafts, including wood crafts, clothing, and jewelry, are given to donors as thank you tokens in exchange for contributions.

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, 2016 and 2015, 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.

As of December 31, 2016 and 2015, the Organization held two church certificates of deposit for a total of \$97,500 that are redeemable in 2031 and 2033. The certificates can only be redeemed at maturity at a stated value of \$146,250. The present value of the redemption amount is not significantly different than the cost of the certificates. As such, these certificates are reported at cost and earnings will be recognized upon redemption.

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.

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, 2016 and 2015, respectively.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

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. Construction in progress is stated at cost and is not depreciated until the asset is placed in service. 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 2016 or 2015.

Long-Lived Assets - Long-lived assets held and used by the School are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. When such factors and circumstances exist, the School compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made. No indicators of impairment existed at December 31, 2016 or 2015.

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, 2016 and 2015, would be subject to federal income taxes. Additionally, the Organization is exempt for state sales and franchise taxes. Accordingly, there is no provision or liability for federal income taxes in the accompanying financial statements.

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, and has concluded that as of December 31, 2016 and 2015, 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 after three years prior to the date of the last tax filing.

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

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

Functional Allocation of Expenses - The costs of providing the program and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, costs are allocated to the rehabilitation program, fundraising and management and general expenses based on actual use or estimated use utilizing management's judgment if actual use information 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. The most significant estimates for the Organization include the depreciable life of property and equipment, potential impairment of long-lived assets, the fair value of donated materials or services and the allocation of expenses by function. 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 and notes receivable. 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, 2016 and 2015, the Organization held no cash balances in financial institutions that exceeded the FDIC insurance coverage of \$250,000. Notes receivable are collateralized by the property sold to limit credit exposure.

Reclassifications - Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. These amounts do not impact the Organization's change in net assets year over year.

Management Review - Management has evaluated subsequent events through April 20, 2018, the date the financial statements were available to be issued.

Recent Accounting Standards - In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. This ASU is effective for annual periods beginning after December 15, 2016. The Organization early adopted ASU 2015-03 for the year ended December 31, 2016 and applied its provisions retrospectively. The adoption of ASU 2015-03 resulted in the reclassification of \$33,564 of unamortized debt issuance costs related to the Organization's borrowing facilities (see Note 4) from other assets to long-term debt within the balance sheet as of December 31, 2015. Other than this reclassification, the adoption of ASU 2015-03 did not have a material impact on the Organization's financial statements or results of operations.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires a lessee to recognize a right-of-use asset and a lease liability under most operating leases in its balance sheet. For private companies, the ASU is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Organization has elected not to early adopt this ASU as of December 31, 2016.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* decreases the number of net asset classes from three to two. The new classes will be net assets with donor restrictions and net assets without donor restrictions. The standard also:

- Requires reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments.
- Continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, eliminating the requirement for those who use the direct method to perform reconciliation with the indirect method.
- Requires a not-for-profit to provide in the notes qualitative information on how it manages its liquid available resources and liquidity risks. Quantitative information that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statement and/or in the notes.
- Requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature.

The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application, and early application of the standard is permitted. The Organization has elected not to early adopt this ASU as of December 31, 2016.

NOTE 2 – NOTE RECEIVABLE

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 from the date of the note. In 2017, this note was amended thereby extending the maturity date through 2026, modifying the interest rate to be 8.75%, and requiring monthly payments of principal and interest equal to \$7,492 through the maturity date.

The aggregate future principal collections on this note receivable are as follows:

2017	\$	39,144
2018		42,709
2019		46,600
2020		50,845
2021		55,477
Thereafter		362,544
Total	\$	<u>597,319</u>

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

NOTE 3 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment as of December 31, 2016 and 2015 are as follows:

	2016		2015
Land	\$ 654,842	\$	654,842
Buildings and improvements	4,591,787		4,318,310
Leasehold improvements	210,928		210,928
Furniture and equipment	717,888		682,697
Vehicles	664,691		634,941
Construction in progress	144,692		189,692
Total land, buildings and equipment	6,984,828		6,691,410
Less accumulated depreciation	(1,978,741)		(1,816,644)
Net land, buildings and equipment	\$ 5,006,087	\$	4,874,766

Depreciation expense was \$236,427 and \$220,407 for the years ended December 31, 2016 and 2015, respectively.

NOTE 4 – LONG TERM DEBT

Long-term debt consisted of the following at December 31, 2016 and 2015:

	2016		2015
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	\$ 1,901,833	\$	1,938,785
Note payable to a lender, due in monthly installments of \$1,723, including interest; final balloon payment due April 2026, interest at 4.99%, collateralized by the assets of the Organization	154,401		-
Note payable to a lender, due in monthly installments of \$1,836, including interest; final balloon payment due January 2019, interest at 6.25%, collateralized by the assets of the Organization	42,929		-
Unsecured note payable to a church, due in monthly installments of \$2,000, interest at 0%; final payment was made in 2016	-		20,000
Note payable to a lender, due in monthly installments of \$2,132, including interest; final payment due October 2020, interest at 4.99%, collateralized by the assets of the Organization	87,261		105,816
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	62,717		70,228

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

Notes payable to a lender, due in monthly installments of \$427, including interest; final payment due June 2019, interest at 4.24% and collateralized by property of the Organization	12,150	16,612
Notes payable to a lender, due in monthly installments of \$463, including interest at 11.29%; and collateralized by certain assets of the Organization; final payment was made in 2016	-	10,991
Notes payable to a lender, due in monthly installments of \$337, including interest at 17.85%; due May 2018, and collateralized by certain assets	6,396	7,880
Total long-term debt	<u>2,267,687</u>	<u>2,170,312</u>
Less: unamortized loan costs	(33,564)	(33,564)
Less: current portion of long-term debt	<u>(105,997)</u>	<u>(93,916)</u>
Long-term debt, less current portion	<u>\$ 2,128,126</u>	<u>\$ 2,042,832</u>

The aggregate future maturities of the long-term debt are as follows:

2017	\$	105,997
2018		110,659
2019		89,737
2020		82,844
2021		67,008
Thereafter		<u>1,811,442</u>
Total	\$	<u>2,267,687</u>

NOTE 5 – 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, 2016 and 2015, the Organization paid approximately \$11,200 and \$9,400, respectively.

During the years ended December 31, 2016 and 2015, various members of the Board of Directors and their affiliated organizations, made contributions to the Organization in the amount of \$4,170 and \$20,655, respectively.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

NOTE 6 – STORE SALES, CRAFTS AND SERVICES AND SPECIAL EVENTS

The Organization operates thrift stores, sells crafts and services and conducts special events to raise funds for operations. The revenues from these are reported net of related costs in the statements of activities as follows:

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Revenue	Cost	Net	Revenue	Cost	Net
Crafts and services	\$ 1,025,080	\$ 72,862	\$ 952,218	\$ 942,862	\$ 68,694	\$ 874,168
Special events	847,177	176,404	670,773	853,143	187,376	665,767
Thrift store sales	387,754	271,796	115,958	430,333	280,017	150,316

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Leases

The Organization has various equipment leases and leases a portion of its facilities, primarily thrift stores, pursuant to non-cancellable operating lease agreements. Lease expense was approximately \$199,700 and \$110,700 for the years ended December 31, 2016 and 2015, respectively.

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

Year Ending December 31,	Operating Leases
2017	\$ 155,975
2018	150,115
2019	116,925
2020	13,000
2021	-
Future minimum lease payments	\$ <u>436,015</u>

Litigation

The Organization is involved from time to time in certain legal actions arising from normal business activities. Management believes that the outcome of such proceedings will not materially affect the financial position or results of operations of the Organization.

Contingencies

In 2012, the Organization received contributed property which included a small hospital building that is abandoned due to asbestos discovered in the past. The Organization has plans for future abatement and, as such, as recorded a contingent liability. The contingent liability totaled \$39,100 at December 31, 2016 and 2015.

NOTE 8 – SUBSEQUENT EVENTS

In 2017, the Organization closed the physical thrift stores in Pasadena and Azle. Certain items from the Azle thrift store are still available for sale online.

In 2017 and 2018, the Organization paid off the remaining principal balance on three loans totaling approximately \$60,000.

In 2017 and 2018, the Organization entered into two loans totaling approximately \$26,000 to acquire certain equipment for the San Antonio workshop.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2016 and 2015

In 2017, the Organization entered into a 15-year \$940,000 loan agreement with a private foundation in order to purchase and renovate certain property in Bastrop, Texas. This loan bears interest at 3% per year and is collateralized by the acquired property.