



ADULT AND TEEN CHALLENGE OF TEXAS

Financial Statements
(With Independent Auditors' Report Thereon)

December 31, 2015 and 2014

 **PMB Helin Donovan**
CERTIFIED PUBLIC ACCOUNTANTS

ADULT AND TEEN CHALLENGE OF TEXAS

Index to Financial Statements

December 31, 2015 and 2014

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses, Year Ended December 31, 2015	4
Statement of Functional Expenses, Year Ended December 31, 2014	5
Statements of Cash Flows	6
Notes to Financial Statements	7

Independent Auditors' Report

To the Board of Directors
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, 2015 and 2014, 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.

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 Adult and Teen Challenge of Texas as of December 31, 2015 and 2014, 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

Dallas, Texas
December 30, 2016

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Financial Position

As of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 44,741	\$ 59,956
Current portion of notes receivable	7,315	7,868
Inventory	<u>19,936</u>	<u>40,276</u>
Total current assets	71,992	108,100
Land, buildings and equipment, net	4,685,074	4,844,295
Construction in progress	189,692	144,692
Notes receivable, less current portion	597,319	603,553
Other long-term assets	<u>142,064</u>	<u>142,064</u>
Total assets	<u>\$ 5,686,141</u>	<u>\$ 5,842,704</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 196,892	\$ 179,325
Current portion of long-term debt	<u>93,916</u>	<u>61,680</u>
Total current liabilities	290,808	241,005
Long-term debt, less current portion	2,076,396	2,129,527
Other long-term liabilities	<u>39,155</u>	<u>39,155</u>
Total liabilities	2,406,359	2,409,687
Net assets-unrestricted	<u>3,279,782</u>	<u>3,433,017</u>
Total liabilities and net assets	<u>\$ 5,686,141</u>	<u>\$ 5,842,704</u>

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Activities

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Support and Revenues		
Individuals' contributions	\$ 76,666	\$ 84,437
Church contributions	135,359	147,237
Other contributions	284,910	531,267
Special events, net	665,767	626,048
Crafts and services, net	874,168	927,964
Thrift store sales, net	212,210	270,308
Student fees	519,139	277,171
Rental income	45,304	112,930
Other income	308,161	357,325
Loss on disposal of assets	(53,929)	(25,135)
Total support and revenues	<u>3,067,755</u>	<u>3,309,552</u>
Expenses		
Program services:		
Rehabilitation	<u>2,570,167</u>	<u>2,464,668</u>
Total program services	<u>2,570,167</u>	<u>2,464,668</u>
Supporting services:		
Management and general	578,221	605,535
Fundraising	<u>72,602</u>	<u>66,217</u>
Total supporting services	<u>650,823</u>	<u>671,752</u>
Total expenses	<u>3,220,990</u>	<u>3,136,420</u>
Change in unrestricted net assets	(153,235)	173,132
Unrestricted net assets at beginning of year	3,433,017	3,259,885
Unrestricted net assets at end of year	<u>\$ 3,279,782</u>	<u>\$ 3,433,017</u>

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			Total
	Rehabilitation	Management and General	Fundraising	Total Supporting Services		
				Management and General	Fundraising	
Salaries and benefits	\$ 975,286	\$ 476,525	\$ 44,674	\$ 521,199	\$ 1,496,485	
Curriculum	6,074	-	-	-	6,074	
Depreciation	220,407	-	-	-	220,407	
Housing	435,141	-	-	-	435,141	
Insurance	197,987	-	-	-	197,987	
Bank fees	24,666	-	-	-	24,666	
Interest expense	111,641	-	-	-	111,641	
Maintenance and repairs	202,673	-	-	-	202,673	
Office expense	-	53,620	-	53,620	53,620	
Professional fees	-	40,748	-	40,748	40,748	
Public relations	-	-	27,928	27,928	27,928	
Transportation	17,597	-	-	-	17,597	
Utilities	377,506	7,328	-	7,328	384,834	
Other	1,189	-	-	-	1,189	
Total expenses	\$ 2,570,167	\$ 578,221	\$ 72,602	\$ 650,823	\$ 3,220,990	

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statement of Functional Expenses

Year Ended December 31, 2014

	Program Services		Supporting Services		
	Rehabilitation	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 1,019,932	\$ 500,073	\$ 46,881	\$ 546,954	\$ 1,566,886
Curriculum	4,823	-	-	-	4,823
Depreciation	232,649	-	-	-	232,649
Housing	408,580	-	-	-	408,580
Insurance	160,239	-	-	-	160,239
Bank fees	26,972	-	-	-	26,972
Interest expense	111,893	-	-	-	111,893
Maintenance and repairs	126,348	-	-	-	126,348
Office expense	-	56,480	-	56,480	56,480
Professional fees	-	41,019	-	41,019	41,019
Public relations	-	-	19,336	19,336	19,336
Transportation	23,351	-	-	-	23,351
Utilities	347,446	7,963	-	7,963	355,409
Other	2,435	-	-	-	2,435
Total expenses	\$ 2,464,668	\$ 605,535	\$ 66,217	\$ 671,752	\$ 3,136,420

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (153,235)	\$ 173,132
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	220,407	232,649
Loss on disposal of assets	53,929	25,135
Changes in operating assets and liabilities:		
Inventory	20,340	(9,288)
Other long-term assets	-	(11,000)
Accounts payable and accrued liabilities	17,567	(77,889)
Net cash provided by operating activities	<u>159,008</u>	<u>332,739</u>
Cash flows from investing activities		
Purchase of land, buildings and equipment	(118,140)	(243,209)
Additions to construction in progress	(45,000)	(24,342)
Proceeds from sale of assets	3,025	5,438
Repayments from notes receivable	6,787	6,815
Net cash used in investing activities	<u>(153,328)</u>	<u>(255,298)</u>
Cash flows from financing activities		
Proceeds from notes payable	161,237	23,000
Payment of notes payable	(182,132)	(83,820)
Net cash used in financing activities	<u>(20,895)</u>	<u>(60,820)</u>
(Decrease) Increase in cash and cash equivalents	(15,215)	16,621
Cash and cash equivalents at beginning of year	59,956	43,335
Cash and cash equivalents at end of year	<u>\$ 44,741</u>	<u>\$ 59,956</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 111,641</u>	<u>\$ 135,729</u>
Non-cash investing activities:		
Original cost of assets retired	146,549	199,541
Accumulated depreciation of assets retired	(89,595)	(168,968)

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements

December 31, 2015 and 2014

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 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, 2015 and 2014.

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, 2015 and 2014.

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. Crafts, including wood crafts, clothing, cookbooks, and jewelry, are given to donors as thank you tokens in exchange for contributions. 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 based on ability to pay and this revenue is recognized over the period of service. Other income is primarily from food stamps from the residents who are eligible for this subsidy. This revenue is recognized as the food stamps are redeemed.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2015 and 2014

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, 2015 and 2014, 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.

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.

Inventory

Inventory consists of crafts, both raw materials and finished goods, and is stated at the lower of cost or market using the first-in, first-out method.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2015 and 2014

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

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, 2015 and 2014, respectively.

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 2015 and 2014.

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

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, 2015 and 2014, 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, 2015 and 2014, 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.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2015 and 2014

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

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 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 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. 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, 2015 and 2014, 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 years' financial statements have been reclassified to conform to the current year presentation.

New Accounting Standards

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, 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:

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2015 and 2014

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

New Accounting Standards - Continued

- 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, 2015.

ASU No. 2015-03, *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct reduction from the corresponding debt liability rather than as an asset. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not yet been issued. Upon adoption, an entity must apply the guidance retrospectively to all prior periods presented. The Organization has elected not to early adopt this ASU as of December 31, 2015.

NOTE 2 - INVENTORY

Inventory at December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Raw materials	\$ 7,821	\$ 3,962
Finished goods	12,115	36,314
Total inventory	<u>\$ 19,936</u>	<u>\$ 40,276</u>

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2015 and 2014

NOTE 3 – 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.

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

2016	\$	7,315
2017		597,319
Total	\$	<u>604,634</u>

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 654,842	\$ 654,842
Buildings and improvements	4,318,310	4,287,628
Leasehold improvements	210,928	207,024
Furniture and equipment	682,697	719,567
Vehicles	634,941	661,065
Total land, buildings and equipment	<u>6,501,718</u>	<u>6,530,126</u>
Less accumulated depreciation	<u>(1,816,644)</u>	<u>(1,685,831)</u>
Net land, buildings and equipment	<u>\$ 4,685,074</u>	<u>\$ 4,844,295</u>

Depreciation expense was \$220,407 and \$232,649 for the years ended December 31, 2015 and 2014, respectively.

NOTE 5 – OTHER ASSETS

In March 2011, the Organization obtained a loan with Church Extension Plan, which included the option to purchase church certificates for a minimum of \$97,500 and would lower the interest rate on the loan. In 2013, the Organization refinanced the loan with AG Financial. The certificates for the Church Extension Plan were paid and represent two certificates that will be received in 2031 and 2033. The certificates will be valued \$146,250 at maturity. They cannot be redeemed prior to maturity.

Loan costs of \$33,564 at December 31, 2015 and 2014 are related to certain debt and are amortized through 2033, the maturity date of the related loan.

Security deposits on certain leases aggregate \$11,000 at December 31, 2015 and 2014.

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, 2015 and 2014.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2015 and 2014

NOTE 6 – LONG TERM DEBT

Long-term debt consisted of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
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 (see paragraph below for further detail)	\$ 1,938,785	\$ 1,970,936
Note payable to an investment company, due in monthly installments of \$1,582, including interest; final payment due June 2022 (the loan was paid in full in 2015), interest at 5.00% and collateralized by property of the Organization	-	118,547
Unsecured note payable to a church, due in monthly installments of \$2,000, interest at 0%; final payment due October 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	105,816	-
Unsecured note payable to a church, due in monthly installments of \$626, including interest; final payment due June 2017, (the loan was paid in full in 2015), interest at 3.99%	-	4,854
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	70,228	75,957
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	16,612	20,913
Notes payable to a lender, due in monthly installments of \$463, including interest at 11.29%; final payment due March 2018, and collateralized by certain assets of the Organization	10,991	-

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2015 and 2014

NOTE 6 – LONG TERM DEBT - CONTINUED

Notes payable to a lender, due in monthly installments of \$337, including interest at 17.85%; due May 2018, and collateralized by certain assets

	7,880	-
Total long-term debt	<u>2,170,312</u>	<u>2,191,207</u>
Less: current portion of long-term debt	93,916	61,680
Long-term debt, less current portion	\$ <u><u>2,076,396</u></u>	\$ <u><u>2,129,527</u></u>

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 Church Extension Plan (“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 aggregate future maturities of the long-term debt are as follows:

2016	\$ 93,916
2017	77,998
2018	75,605
2019	75,337
2020	64,825
Thereafter	<u>1,782,631</u>
Total	\$ <u><u>2,170,312</u></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, 2015 and 2014, the Organization paid approximately \$9,400 and \$10,900, respectively, to Teen Challenge USA.

During the years ended December 31, 2015 and 2014, various members of the Board of Directors and their affiliated organizations, made contributions to the Organization in the amount of \$20,655 and \$67,464, respectively.

NOTE 8 – COSTS OF SALES 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, 2015			Year Ended December 31, 2014		
	Revenue	Cost	Net	Revenue	Cost	Net
Special events	\$ 853,143	\$187,376	\$665,767	\$ 834,740	\$208,692	\$626,048
Crafts and services	942,862	68,694	874,168	1,023,976	96,012	927,964
Thrift store sales	430,333	218,123	212,210	404,382	134,074	270,308

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2015 and 2014

NOTE 9 – 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, 2015 and 2014, respectively.

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

<u>Year Ending December 31,</u>	<u>Operating Leases</u>
2016	\$ 289,035
2017	231,875
2018	150,115
2019	116,925
2020	13,000
Future minimum lease payments	<u>\$ 800,950</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.

NOTE 10 – SUBSEQUENT EVENTS

In August 2016, the Organization's San Antonio men's campus was awarded an Affordable Housing Program Grant in the amount of \$500,000. A construction loan of \$500,000 was taken from the sponsor bank, Frost Bank, in connection with this grant. The grant will fully pay off the loan as money is spent. The Organization is only obligated to pay interest on the loan.

In 2016, the Organization opened 12 bank accounts with Frost Bank and closed all Wells Fargo and Bank of America Accounts.

In December 2015, the Organization entered into a three-year note agreement with a bank for a \$60,000 note bearing interest at 6.25%. Proceeds from the note were received by the Organization in January 2016.

The Organization began leasing property in Bastrop, TX for an adolescent campus which is state-licensed and opened on September 1, 2016.

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, 2015, this date was December 30, 2016.