



Adult and Teen Challenge of Texas

Financial Statements
(With Independent Auditor's Report Thereon)

December 31, 2017 and 2016

ADULT AND TEEN CHALLENGE OF TEXAS

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December 31, 2017 and 2016

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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 statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Adult and Teen Challenge of Texas as of and for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those financial statements in the report dated April 20, 2018.

STILL BURTON, LLP

Still Burton LLP

Farmers Branch, Texas
February 13, 2019

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Financial Position

As of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 55,051	\$ 61,157
Investments, at fair value	97,500	97,500
Inventory	46,613	37,243
Notes receivable	558,236	597,319
Land, buildings and equipment, net	<u>6,223,308</u>	<u>5,006,087</u>
Total assets	<u>\$ 6,980,708</u>	<u>\$ 5,799,306</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 235,801	\$ 303,336
Debt, net of unamortized loan costs	3,043,700	2,234,123
Asbestos abatement	<u>39,155</u>	<u>39,155</u>
Total liabilities	<u>3,318,656</u>	<u>2,576,614</u>
Net assets-unrestricted	<u>3,662,052</u>	<u>3,222,692</u>
Total liabilities and net assets	<u>\$ 6,980,708</u>	<u>\$ 5,799,306</u>

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Activities

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Support and Revenues		
Contributions	\$ 1,316,367	\$ 845,125
Special events, net	579,861	670,773
Thrift store sales, crafts and services, net	1,145,547	1,068,176
Student tuition and fees	678,020	586,431
Food assistance	277,511	280,069
Rent	46,631	34,602
Investment income	50,764	45,142
Other income	12,077	13,876
Total support and revenues	<u>4,106,778</u>	<u>3,544,194</u>
Expenses		
Program services:		
Rehabilitation	<u>2,753,023</u>	<u>2,569,026</u>
Total program services	<u>2,753,023</u>	<u>2,569,026</u>
Supporting services:		
Management and general	630,418	722,028
Fundraising	<u>283,977</u>	<u>310,230</u>
Total supporting services	<u>914,395</u>	<u>1,032,258</u>
Total expenses	<u>3,667,418</u>	<u>3,601,284</u>
Change in unrestricted net assets	439,360	(57,090)
Unrestricted net assets at beginning of year	<u>3,222,692</u>	<u>3,279,782</u>
Unrestricted net assets at end of year	<u>\$ 3,662,052</u>	<u>\$ 3,222,692</u>

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statement of Functional Expenses

Year Ended December 31, 2017

	Program Services		Supporting Services		
	Rehabilitation	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 1,112,643	\$ 346,773	\$ 282,496	\$ 629,269	\$ 1,741,912
Curriculum	17,534	-	-	-	17,534
Depreciation	263,576	-	-	-	263,576
Housing	514,181	-	-	-	514,181
Insurance	166,599	-	-	-	166,599
Bank fees	-	30,996	-	30,996	30,996
Interest expense	-	131,857	-	131,857	131,857
Maintenance and repairs	212,802	-	-	-	212,802
Office expense	36,459	19,286	-	19,286	55,745
Professional fees	16,923	80,304	-	80,304	97,227
Public relations	7,525	12,464	1,481	13,945	21,470
Transportation	21,867	-	-	-	21,867
Utilities	382,914	-	-	-	382,914
Other	-	8,738	-	8,738	8,738
Total expenses	\$ 2,753,023	\$ 630,418	\$ 283,977	\$ 914,395	\$ 3,667,418

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
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 and 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

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 439,360	\$ (57,090)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	263,576	236,427
Loss on disposal of assets	16,364	5,169
Changes in operating assets and liabilities:		
Inventory	(9,370)	(6,307)
Accounts payable and accrued liabilities	(67,535)	106,444
Net cash provided by operating activities	<u>642,395</u>	<u>284,643</u>
 Cash flows from investing activities		
Purchase of land, buildings and equipment	(1,498,401)	(372,917)
Proceeds from sale of assets	1,240	-
Repayments from notes receivable	39,083	7,315
Net cash used in investing activities	<u>(1,458,078)</u>	<u>(365,602)</u>
 Cash flows from financing activities		
Borrowings on debt	957,793	222,500
Payment of debt	(148,216)	(125,125)
Net cash provided by financing activities	<u>809,577</u>	<u>97,375</u>
 (Decrease) increase in cash and cash equivalents	(6,106)	16,416
Cash and cash equivalents at beginning of year	61,157	44,741
Cash and cash equivalents at end of year	<u>\$ 55,051</u>	<u>\$ 61,157</u>
 Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 131,857	\$ 113,795
Cash paid for taxes	\$ -	\$ -

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements

December 31, 2017 and 2016

NOTE 1 – 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT 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, 2017 and 2016.

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, 2017 and 2016.

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 service.

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 government subsidy. This revenue is recognized as the food stamps are used and redeemed.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT 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. 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, 2017 and 2016, 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, 2017 and 2016, 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 at 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.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES – CONTINUED

Notes Receivable - Continued

No impairments were recognized on notes receivable during the years ended December 31, 2017 and 2016, respectively.

Inventory – Inventory consists of custom made pieces in the programs of art and crafts, jewelry, candle and clothing. Inventory is valued at cost. At December 31, 2017, there are no reserve for obsolete items.

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 or depreciable assets and their estimated useful lives are:

<u>Asset Category</u>	<u>Estimated Useful Lives</u>
Building and improvements	25 – 40 years
Furniture and equipment	3 – 7 years
Vehicles	5 years
Leasehold improvements	shorter of useful life or lease term

Long-lived Assets – Long-lived assets held and used by the Organization 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 Organization 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 indicator of impairment existed at December 31, 2017 or 2016.

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, 2017 and 2016, 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 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, 2017 and 2016, 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, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED

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 judgement 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, 2017 and 2016, the Organization held no cash balances in financial institutions that exceeded the Federal Deposit Insurance Corporation insurance coverage of \$250,000. Notes receivable are collateralized by the property sold to limit credit exposure.

Reclassifications - Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Those amounts do not impact the Organization's change in net assets year over year.

Recent Accounting Pronouncements - 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. The ASU is effective for periods beginning after December 15, 2019. Early adoption is permitted. The Organization has elected not to early adopt this ASU as of December 31, 2017. The Organization is required to implement this ASU for the year ended December 31, 2020.

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, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED

Recent Accounting Pronouncements - 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 years beginning after December 15, 2017. Early application of the standard is permitted. The Organization has elected not to early adopt this ASU as of December 31, 2017, but is required to implement this ASU for the year ended December 31, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The objective of the revenue standard is to provide a single, comprehensive revenue recognition model for all contracts to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of revenue recognition. FASB deferred the effective date for fiscal years beginning after December 15, 2018 for non-profit entities, though these entities can early adopt if they so elect. The Organization has elected not to early adopt this ASU as of December 31, 2017. The organization is required to implement for the year ended December 31, 2019.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). An accommodation (“simultaneous release” option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization has elected not to early adopt this ASU as of December 31, 2017. Implementation will be required for the Organization’s fiscal year ended December 31, 2020. Management is currently evaluating impact, if any, on its financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2017 and 2016

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. 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:

2018	\$	42,709
2019		46,600
2020		50,845
2021		55,477
2022		60,530
Thereafter		<u>302,075</u>
Total	\$	<u>558,236</u>

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 654,842	\$ 654,842
Buildings and improvements	5,951,827	4,591,787
Leasehold improvements	219,979	210,928
Furniture and equipment	786,663	717,888
Vehicles	618,031	664,691
Construction in progress	<u>144,692</u>	<u>144,692</u>
Total land, buildings and equipment	8,196,994	6,984,828
Less accumulated depreciation	<u>(2,152,726)</u>	<u>(1,978,741)</u>
Net land, buildings and equipment	<u>\$ 6,223,308</u>	<u>\$ 5,006,087</u>

Depreciation expense was \$263,576 and \$236,427 for the years ended December 31, 2017 and 2016, respectively.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2017 and 2016

NOTE 5 – LONG TERM DEBT

Debt consisted of the following at December 31, 2017 and 2016:

	2017	2016
Note payable to a lender, due in monthly installments of \$10,810, including interest; final balloon payment due June 2033, interest at 4.99%, collateralized by the assets of the Organization	\$ 1,875,759	\$ 1,901,833
Note payable to a lender, due in monthly installments of \$1,723, including interest; final payment due April 2026, interest at 4.99%, collateralized by the assets of the Organization	140,311	154,401
Note payable to a lender, due in monthly installments of \$1,836, including interest; final payment due January 2019, interest at 6.25%, collateralized by the assets of the Organization; Early payoff was made in 2017	-	42,929
Note payable to a lender, due in monthly installments of \$2,132, including interest; final payment due September 2020, interest at 4.99%, collateralized by the assets of the Organization	65,541	87,261
Unsecured note payable to two individuals, due in monthly installments of \$626, including interest; final payment due May 2025, interest at 0% and collateralized by certain property of the Organization	53,954	62,717
Notes payable to a lender, due in monthly installments of \$4,659, including interest; final payment due May 2037, interest at 3% and collateralized by certain property of the Organization	821,955	-
Notes payable to a lender, due in monthly installments of \$427, including interest; final payment due June 2019, interest at 4% and collateralized by certain property of the Organization	7,422	12,150
Notes payable to a lender, due in monthly installments of \$281, including interest; final payment due December 2022, interest at 16.55% and collateralized by certain property of the Organization	10,716	-
Line of credit to a lender, interest at 3%; final payment due May 2033, and collateralized by certain property of the Organization	100,000	-
Notes payable to a lender, due in monthly installments of \$337, including interest at 17.85%; due May 2018, and collateralized by certain property	1,606	6,396
Total debt	3,077,264	2,267,687
Less: Unamortized loan costs	(33,564)	(33,564)
Debt, net of unamortized loan costs	\$ 3,043,700	\$ 2,234,123

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2017 and 2016

NOTE 5 – LONG TERM DEBT - CONTINUED

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

2018	\$	119,058
2019		125,708
2020		122,073
2021		107,836
2022		113,592
Thereafter		<u>2,488,997</u>
Total	\$	<u><u>3,077,264</u></u>

NOTE 6 – 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, 2017 and 2016, the Organization paid approximately \$12,400 and \$11,200, respectively, to Teen Challenge USA.

During the years ended December 31, 2017 and 2016, various members of the Board of Directors and their affiliated organizations, made contributions to the Organization in the amount of \$40,000 and \$4,170, respectively.

NOTE 7 – STORE SALES, CRAFTS 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, 2017			Year Ended December 31, 2016		
	Revenue	Cost	Net	Revenue	Cost	Net
Crafts and services	\$ 1,135,359	\$ 55,720	\$ 1,079,639	\$ 1,025,080	\$ 72,862	\$ 952,218
Thrift store sales	248,966	183,058	65,908	387,754	271,796	115,958
	<u>1,384,325</u>	<u>238,778</u>	<u>1,145,547</u>	<u>1,412,834</u>	<u>344,658</u>	<u>1,068,176</u>
Special events	745,017	165,156	579,861	847,177	176,404	670,773
Total	\$ 2,129,342	\$ 403,934	\$ 1,725,408	\$ 2,260,011	\$ 521,062	\$ 1,738,949

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements - Continued

December 31, 2017 and 2016

NOTE 8 – 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 \$174,000 and \$199,700 for the years ended December 31, 2017 and 2016, 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>
2018	\$ 79,035
2019	47,605
Future minimum lease payments	<u>\$ 126,640</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, has recorded a contingent liability. The contingent liability totaled \$39,155 at December 31, 2017 and 2016.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 13, 2019, the date the financial statements were available to be issued.

In February 2018, the Organization received a Grant of \$50,000 from Ed Rachal Foundation for the Azle men's campus kitchen renovation.

In January 2018, the Organization signed a lease with DOCUmentation for five copy machines with 63 monthly payments of \$655.