

# ADULT AND TEEN CHALLENGE OF TEXAS

Financial Statements  
(With Independent Auditor's Report Thereon)

December 31, 2020 and 2019

**ADULT AND TEEN CHALLENGE OF TEXAS**

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December 31, 2020 and 2019

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**Independent Auditor's 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, 2020 and 2019 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 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, 2020 and 2019, 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.

**STILL BURTON LLP**

*Still Burton LLP*

Farmers Branch, Texas  
August 25, 2021

## ADULT AND TEEN CHALLENGE OF TEXAS

### Statements of Financial Position

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 128,874	\$ 105,772
Grants receivable	1,392,000	1,442,000
Inventory	7,541	26,272
Investments, at fair value	-	97,500
Land, buildings and equipment, net	7,962,570	6,025,409
Total assets	<u>\$ 9,490,985</u>	<u>\$ 7,696,953</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 292,840	\$ 311,934
Capital lease	52,903	63,520
Debt, net of unamortized loan costs	3,593,402	3,321,278
Asbestos abatement	39,155	39,155
Total liabilities	<u>3,978,300</u>	<u>3,735,887</u>
<b>Net Assets</b>		
Without donor restrictions	3,999,183	2,566,633
With donor restrictions	1,513,502	1,394,433
Total net assets	<u>5,512,685</u>	<u>3,961,066</u>
Total liabilities and net assets	<u>\$ 9,490,985</u>	<u>\$ 7,696,953</u>

See accompanying notes and independent auditor's report.

**ADULT AND TEEN CHALLENGE OF TEXAS**

Statements of Activities

Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues</b>						
Contributions	\$ 1,508,610	\$ 1,576,287	\$ 3,084,897	\$ 760,612	\$ 1,375,617	\$ 2,136,229
Student tuition and fees	2,190,640	-	2,190,640	1,809,167	-	1,809,167
Work revenue	799,676	-	799,676	890,896	-	890,896
Crafts and services	128,570	-	128,570	152,124	-	152,124
Thrift store sales	45,988	-	45,988	72,689	-	72,689
Fundraising events	438,031	-	438,031	752,671	-	752,671
Food assistance	261,365	-	261,365	282,650	-	282,650
Rent	44,253	-	44,253	51,293	-	51,293
	<u>5,417,133</u>	<u>1,576,287</u>	<u>6,993,420</u>	<u>4,772,102</u>	<u>1,375,617</u>	<u>6,147,719</u>
<b>Net Assets Released</b>	<u>1,457,218</u>	<u>(1,457,218)</u>	<u>-</u>	<u>731,184</u>	<u>(731,184)</u>	<u>-</u>
Total revenues	<u>6,874,351</u>	<u>119,069</u>	<u>6,993,420</u>	<u>5,503,286</u>	<u>644,433</u>	<u>6,147,719</u>
<b>Expenses</b>						
Program services:						
Rehabilitation	3,807,487	-	3,807,487	3,319,434	-	3,319,434
Total program services	<u>3,807,487</u>	<u>-</u>	<u>3,807,487</u>	<u>3,319,434</u>	<u>-</u>	<u>3,319,434</u>
Supporting services:						
Management and general	1,261,914	-	1,261,914	1,364,810	-	1,364,810
Fundraising	381,926	-	381,926	449,810	-	449,810
Total supporting services	<u>1,643,840</u>	<u>-</u>	<u>1,643,840</u>	<u>1,814,620</u>	<u>-</u>	<u>1,814,620</u>
Total expenses	<u>5,451,327</u>	<u>-</u>	<u>5,451,327</u>	<u>5,134,054</u>	<u>-</u>	<u>5,134,054</u>
Change in net assets before other income (expense)	<u>1,423,024</u>	<u>119,069</u>	<u>1,542,093</u>	<u>369,232</u>	<u>644,433</u>	<u>1,013,665</u>
<b>Other Income (Expense)</b>						
Interest income	83	-	83	25,951	-	25,951
Loss on redemption of investments	(23,246)	-	(23,246)	(1,791,136)	-	(1,791,136)
Other income	32,689	-	32,689	12,226	-	12,226
Total other income (expense)	<u>9,526</u>	<u>-</u>	<u>9,526</u>	<u>(1,752,959)</u>	<u>-</u>	<u>(1,752,959)</u>
Change in net assets	1,432,550	119,069	1,551,619	(1,383,727)	644,433	(739,294)
Net assets at beginning of year	2,566,633	1,394,433	3,961,066	3,950,360	750,000	4,700,360
Net assets at end of year	<u>\$ 3,999,183</u>	<u>\$ 1,513,502</u>	<u>\$ 5,512,685</u>	<u>\$ 2,566,633</u>	<u>\$ 1,394,433</u>	<u>\$ 3,961,066</u>

See accompanying notes and independent auditor's report.

**ADULT AND TEEN CHALLENGE OF TEXAS**

Statement of Functional Expenses

Year Ended December 31, 2020

	<b>Program Services</b>		<b>Supporting Services</b>		
	<b>Rehabilitation</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	<b>Total</b>
Salaries and benefits	\$ 1,992,113	\$ 575,991	\$ 224,206	\$ 800,197	\$ 2,792,310
Housing	595,460	132	9	141	595,601
Utilities	362,831	64,791	4,319	69,111	431,942
Maintenance and repairs	266,092	57,074	14,595	71,669	337,761
Depreciation	262,025	46,790	3,119	49,909	311,934
Insurance	188,153	33,599	2,240	35,839	223,992
Interest expense	-	150,438	-	150,438	150,438
Professional fees	19,727	123,612	235	123,846	143,573
Office expense	36,621	55,290	436	55,726	92,347
Public relations	-	75,370	4,600	79,970	79,970
Fundraising events	-	-	76,576	76,576	76,576
Bank fees	-	69,682	-	69,682	69,682
Curriculum	64,117	-	-	-	64,117
Crafts and services	-	-	51,371	51,371	51,371
Transportation	18,442	3,293	220	3,513	21,955
Thrift store	-	3,764	-	3,764	3,764
Other	1,907	2,087	-	2,087	3,994
<b>Total expenses</b>	<b>\$ 3,807,487</b>	<b>\$ 1,261,914</b>	<b>\$ 381,926</b>	<b>\$ 1,643,840</b>	<b>\$ 5,451,327</b>

See accompanying notes and independent auditor's report.

**ADULT AND TEEN CHALLENGE OF TEXAS**

Statement of Functional Expenses

Year Ended December 31, 2019

	<b>Program Services</b>		<b>Supporting Services</b>			<b>Total</b>
	<b>Rehabilitation</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	<b>Total</b>	
Salaries and benefits	\$ 1,409,914	\$ 625,768	\$ 250,275	\$ 876,043	\$ 2,285,957	
Housing	674,816	-	-	-	674,816	
Utilities	353,660	63,154	4,210	67,364	421,024	
Maintenance and repairs	308,055	61,409	11,422	72,831	380,886	
Depreciation	266,241	47,543	3,170	50,713	316,954	
Insurance	169,762	30,315	2,021	32,336	202,098	
Professional fees	37,342	119,253	177	119,430	156,772	
Interest expense	-	148,054	-	148,054	148,054	
Fundraising events	-	-	137,660	137,660	137,660	
Public relations	-	92,478	5,845	98,323	98,323	
Office expense	30,674	33,197	195	33,392	64,066	
Bank fees	-	52,915	-	52,915	52,915	
Curriculum	44,818	-	-	-	44,818	
Thrift store	-	37,324	-	37,324	37,324	
Crafts and services	-	-	34,547	34,547	34,547	
Transportation	24,152	4,313	288	4,601	28,753	
Other	-	49,087	-	49,087	49,087	
<b>Total expenses</b>	<b>\$ 3,319,434</b>	<b>\$ 1,364,810</b>	<b>\$ 449,810</b>	<b>\$ 1,814,620</b>	<b>\$ 5,134,054</b>	

See accompanying notes and independent auditor's report.

**ADULT AND TEEN CHALLENGE OF TEXAS**

## Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 1,551,619	\$ (739,294)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	311,934	316,954
Loss on redemption of investments	23,246	1,791,136
Changes in operating assets and liabilities:		
Grant receivable	50,000	(692,000)
Inventory	18,731	4,351
Accounts payable and accrued liabilities	<u>(19,094)</u>	<u>(55,292)</u>
Net cash provided by operating activities	<u>1,936,436</u>	<u>625,855</u>
<b>Cash flows from investing activities</b>		
Purchase of land, buildings and equipment	(2,249,095)	(1,602,757)
Proceeds from sale of assets	-	125,000
Repayments from notes receivable	<u>-</u>	<u>515,466</u>
Net cash used in investing activities	<u>(2,249,095)</u>	<u>(962,291)</u>
<b>Cash flows from financing activities</b>		
Borrowings on debt	392,388	801,072
Payment of debt	(120,264)	(573,412)
Receipts from sale of investments	74,254	-
Payments on capitalized lease obligations	<u>(10,617)</u>	<u>63,520</u>
Net cash provided by financing activities	<u>335,761</u>	<u>291,180</u>
Increase (decrease) in cash and cash equivalents	23,102	(45,256)
Cash and cash equivalents at beginning of year	<u>105,772</u>	<u>151,028</u>
Cash and cash equivalents at end of year	<u>\$ 128,874</u>	<u>\$ 105,772</u>
<b>Supplemental disclosures of cash flow information:</b>		
Non-cash: vehicles purchased with debt	<u>\$ -</u>	<u>\$ 162,610</u>
Cash paid for interest	<u>\$ 150,438</u>	<u>\$ 144,245</u>

See accompanying notes and independent auditor's report.

## ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements  
December 31, 2020 and 2019

### 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 within Texas in the San Antonio, Houston, Fort Worth, Brenham, Austin, and Corpus Christi areas. 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), consistently applied.

**Net Asset Classifications** - The Organization classifies its net assets into two categories as follows:

*Without Donor Restrictions* – Net assets which are not subject to donor-imposed stipulations. These may be used for any purpose or designated for specific purposes by action of the Board of Directors.

*With Donor Restrictions* – (1) Net assets which are subject to donor-imposed purpose restrictions or which expire by the passage of time (formerly called temporarily-restricted). (2) Net assets subject to donor-imposed stipulations that the corpus be maintained permanently. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. These are often referred to as endowments.

**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. Revenues from special events are recognized at the time of service.

Revenues from the thrift store sales are recognized upon acceptance of the goods by the customer at the time of sale.

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

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

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2020 and 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

**Revenue Recognition – Continued** - The students make certain crafts, such as jewelry, crosses, plaques and candles, which are sold at the special events and on the Organization's website. The revenue is recognized at the time of sale.

Work revenue is derived from students who work in the community in addition to living and getting treatment on the campuses. The work proceeds support the Organization's overall mission. The revenue is recognized as the work is performed.

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.

Contributions are received from individuals, churches, corporations and grants. Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Contributions without donor restrictions if the restrictions are satisfied in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases that are restricted by the donor, for either purpose or time, are reported as increases in net assets in net assets with donor restrictions. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 increases in net assets without donor restrictions 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 increases in net assets with donor restrictions. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets or other assets are placed in service.

During the year ended December 31, 2020 and 2019, 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.

**Inventory** – Inventory consists of art and crafts, jewelry, candles and clothing made by the students on the various campuses. Inventory is valued at cost. At December 31, 2020 and 2019, there are no reserve for obsolete items.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2020 and 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED**

**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 net assets without donor restrictions 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, 2019, the Organization held two church certificates of deposit for a total of \$97,500 that are redeemable in 2031 and 2033. The certificates can be redeemed at maturity for the stated value of \$146,250. During the year ended December 31, 2020, the Organization early redeemed both of the investments, resulting in a loss of \$23,246 which is included in other income on the statements of activities.

**Fair Value of Financial Instruments** - The carrying value of the financial instruments, including cash and cash equivalents, notes receivable, 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.

**Grants Receivable** – These represent Federal Home Loan Bank of Dallas (“FHLB”) Affordable Housing Program grants for construction projects at various of the Organization’s locations (see Note 8.)

**Liquidity** – Financial assets available within one year of the fiscal year end date for general expenditures for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 128,874	\$ 105,772
Grants receivable	1,392,000	1,442,000
Inventory	7,541	26,272
Financial assets available at year end	<u>\$1,528,415</u>	<u>\$ 1,574,044</u>
	<u>2020</u>	<u>2019</u>
Financial assets available at year end	\$ 1,528,415	\$ 1,574,044
Less those unavailable for general expenditures within one year, due to:		
Purpose restrictions-FHLB grants	(1,392,000)	(1,311,023)
Purpose or time restrictions--other	(121,502)	(83,410)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,913</u>	<u>\$ 179,611</u>

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2020 and 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES – CONTINUED**

***Liquidity and Availability – Continued***

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management believes it will be able to generate sufficient additional cash flow to meet its working capital needs in future periods through a minimum of one year from the date of this report.

***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, 2020 and 2019.

***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, 2020 and 2019, 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, 2020 and 2019 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, 2020 and 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED**

**Functional Allocation of Expenses** - The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization based on management's estimates. Those expenses include depreciation, salaries and related compensation expenses for the chief executive officer and certain staff, office expense and building cost. Depreciation, office expense and building costs are allocated on a square footage basis of the buildings used to perform program, administrative or fundraising functions. Salaries and related costs are allocated based on a review of the actual time expended.

**Use of Estimates** - Management makes use of estimates in the preparation of its financial statements in conformity with GAAP. The major estimates are allowance for uncollectible receivables, valuation of donated services and materials, allocation of functional expenses, lives used to depreciate fixed assets, and estimates of accrued expenses. The methods used to make such accounting estimates are believed by management to be reasonable and have been consistently applied. Actual results could differ.

**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 grants 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, 2020 and 2019, the Organization held no cash balances in financial institutions that exceeded the Federal Deposit Insurance Corporation insurance coverage of \$250,000. The grants receivable are from the Federal Home Loan Bank of Dallas and are considered collectible.

**Recent Accounting Pronouncements** - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2019 for non-profit entities. The Organization has adopted this ASU as of December 31, 2020. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

In February 2016, the FASB issued 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, 2021. Early adoption is permitted. The Organization has elected not to early adopt this ASU as of December 31, 2019. The Organization is required to implement this ASU for the year ended December 31, 2022.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2020 and 2019

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED**

**Recent Accounting Pronouncements - Continued** – 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 years beginning after December 15, 2019. Early adoption is permitted. The Organization has adopted this ASU as of December 31, 2020. There was no material impact on financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. With this new ASU, organizations receiving contributions of nonfinancial assets are now required to present such contributions as a separate line item on the statement of activities. Additionally, more detailed disclosures will be required, including both goods and services. The ASU is effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. Implementation will be required for the Organization’s fiscal year ended December 31, 2021. Management is currently evaluating impact, if any, on its financial statements.

**Certain Reclassifications** – In the statement of activities for the years ended December 31, 2020 and 2019, certain revenue streams (fund-raising events, thrift store and crafts and services) have been reclassified to show gross revenue rather than net revenue. The related expenses are included in the appropriate functional expense category.

**NOTE 3 – LAND, BUILDINGS AND EQUIPMENT**

Land, buildings, and equipment as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 589,215	\$ 556,715
Buildings and improvements	7,477,512	5,273,905
Leasehold improvements	20,404	20,404
Furniture and equipment	769,006	903,751
Vehicles	916,357	870,170
Construction in progress	497,162	595,628
Total land, buildings and equipment	<u>10,193,498</u>	<u>8,220,573</u>
Less accumulated depreciation	<u>(2,307,086)</u>	<u>(2,195,164)</u>
Net land, buildings and equipment	<u>\$ 7,962,570</u>	<u>\$ 6,025,409</u>

Depreciation expense was \$311,934 and \$316,954 for the years ended December 31, 2020 and 2019, respectively.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2020 and 2019

**NOTE 4 – LONG TERM DEBT**

Debt consisted of the following at December 31, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Note payable 1 to AG Financial, due in monthly installments of \$13,395, including interest; final balloon payment due October 2044, interest at prime (3.25% at December 31, 2020) plus 1.5%; collateralized by the assets of the Organization	\$ 2,166,170	\$ 2,198,092
Unsecured note payable to Ted and Rosa Dean, due in monthly installments of \$626, including interest; final payment due May 2025, interest at 0% and collateralized by certain property of the Organization	31,421	38,932
Notes payable to Ed Rachal Foundation, 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	735,324	757,635
Notes payable to Direct Capital, due in monthly installments of \$427, including interest; final payment due June 2019, interest at 4% and collateralized by a vehicle	5,122	7,217
Notes payable to Direct Capital, due in monthly installments of \$281, including interest; final payment due December 2022, interest at 16.55% and collateralized by router equipment	7,186	10,065
Note payable to Frost Bank, representing construction draws for the Magnolia property, interest at prime (3.25% at December 31, 2020) plus 1.25%, paid in full prior to maturing October 2020	-	92,977
Note payable to Frost Bank, representing construction draws for the San Antonio Women’s and Alvin properties, interest at prime (3.25% at December 31, 2020) plus 1.25%	458,962	-
Vehicle loans, due in monthly installments aggregating \$3,164, including interest; maturities between March 2024 and January 2025; interest ranging between 4.99% and 6.15%; collateralized by vehicles	128,599	153,165
Note payable to Ed Rachal Foundation, interest at 3%; final payment due May 2033, and collateralized by certain property of the Organization	91,503	94,081
Total debt	3,624,288	3,352,164
Less: Unamortized loan costs	(30,886)	(30,886)
Debt, net of unamortized loan costs	\$ 3,593,402	\$ 3,321,278

Long term debt is net of unamortized loan costs. Loan financing costs are costs incurred in connection with the issuance of debt and are capitalized and amortized on a straight-line basis over the life of the debt.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2020 and 2019

**NOTE 4 – LONG TERM DEBT - CONTINUED**

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

	2021	\$	588,647
	2022		135,662
	2023		134,326
	2024		122,739
	2025		99,953
	Thereafter		2,542,963
	Total	\$	3,624,288

**NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following as of December 31, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
FHLB-Magnolia project	\$ -	\$ 657,023
FHLB-San Antonio women’s project	654,000	654,000
FHLB-Alvin project	700,000	-
San Antonio women’s building	105,806	29,714
San Antonio men’s trailer	12,029	12,029
Operations (time restriction)	41,667	41,667
	\$1,513,502	\$1,394,433

**NOTE 6 – RELATED PARTY TRANSACTIONS**

The Organization is a chapter of Adult & Teen Challenge USA. The Organization is required to pay Adult & Teen Challenge USA an accreditation fee of \$150 per center per month through March of 2020. Starting April of 2020, the amount increased to \$225 a month per center. During the year ended December 31, 2020 and 2019, the Organization paid approximately \$25,500 and \$13,300, respectively, to Adult & Teen Challenge USA.

During the year ended December 31, 2020 and 2019, various members of the Board of Directors and their affiliated organizations, made contributions of approximately \$16,000 and \$15,000 to the Organization, 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.

	<b>Year Ended December 31, 2020</b>			<b>Year Ended December 31, 2019</b>		
	<b>Revenue</b>	<b>Cost</b>	<b>Net</b>	<b>Revenue</b>	<b>Cost</b>	<b>Net</b>
Crafts/services	\$128,570	\$ 27,149	\$101,421	\$152,124	\$ 34,547	\$117,577
Thrift store sales	45,988	3,764	42,224	72,689	37,324	35,365
	174,558	30,913	143,645	224,813	71,871	152,942
Special events	438,031	76,576	361,455	752,671	137,660	615,011
Total	\$612,589	\$107,489	\$505,100	\$977,484	\$209,531	\$767,953

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2020 and 2019

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

*Leases* - The Organization leases certain office equipment and building space used in its operations. Certain vehicles are classified as capital, while the remaining leases are classified as operating leases. The equipment under capital lease is being amortized on a straight-line basis over 5 years. Total leased assets aggregate \$67,834, with accumulated amortization relating to the leased assets of \$12,737 as of December 31, 2020. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of December 31, 2020. The interest rates related to the lease obligations range between 9.64% and 11.82%. Maturity dates are through October 2024.

<u>Years ended December 31,</u>	<u>Capital</u>
2021	\$ 14,655
2022	14,655
2023	14,216
2024	9,377
Present value of minimum lease payments	<u>\$ 52,903</u>

At December 31, 2020, the present value of minimum lease payments due within one year is \$10,869.

Total equipment and building space rent expense for the years ended December 31, 2020 and 2019 was approximately \$99,000 and \$87,000, respectively. The following is a schedule of minimum lease payments required under existing noncancelable operating leases:

<u>Years ended December 31,</u>	<u>Operating</u>
2021	\$ 64,260
2022	16,260
2023	16,260
2024	16,260
2025	12,195
Total future minimum lease payments	<u>\$ 125,325</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, 2020 and 2019.

**Commitments** - In October 2019, the FHLB awarded an Affordable Housing Program grant for \$692,000 for construction for the San Antonio, Texas women’s unit. This grant can be drawn on as construction progresses. The Organization pays construction costs, funded by a bank loan. Periodically, the bank loan is paid down with grant draws against the receivable. At December 31, 2020, \$692,000 is recorded as a grant receivable. Subsequent to year end and as of project completion in April of 2021, the entire \$692,000 was received.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2020 and 2019

**NOTE 8 – COMMITMENTS AND CONTINGENCIES - CONTINUED**

In November 2020, the FHLB awarded an Affordable Housing Program grant for \$700,000 for construction for men's unit at the Alvin, Texas location. This grant can be drawn on as construction progresses. At December 31, 2020, \$700,000 is recorded as a grant receivable. Subsequent to year end, construction began in early 2021 and is expected to be completed by fiscal year end 2021. Approximately \$106,000 has been borrowed from the construction loan subsequent to year end but no draws from the grant to reimburse the Organization for the construction draws have been made.

**NOTE 9 – IMPACT OF COVID-19 AND THE PAYCHECK PROTECTION PROGRAM LOAN**

During the spring of 2020, a worldwide pandemic related to the coronavirus virtually shut down the U.S. economy for several months. During this time, the Organization had to cancel certain annual fundraising events, lost certain work jobs for residents, and lost Drug Awareness Team opportunities, resulting in decreased revenues. Resident enrollment decreased somewhat as well. Since that time, residents have continued to increase based on certain protocols and limitations. Additionally, certain work and Drug Awareness Team opportunities have begun to increase.

In April 2020, the Organization obtained approximately \$428,000 from the federal government's payroll protection program ("PPP") as part of the relief efforts related to COVID-19 and administered by the Small Business Administration to mitigate the lost revenues and keep employees on the payroll. On November 2, 2020, the Small Business Administration forgave the entire loan balance of approximately \$428,000. The amount forgiven is shown as income on the statement of activities.

**NOTE 10 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 25, 2021, the date the financial statements were available to be issued.

In early February 2021, the Organization received donations of property, buildings, and other assets for a new women's program in Clarksville, Texas. The Organization opened this new location in February of 2021.