

ADULT AND TEEN CHALLENGE OF TEXAS

Financial Statements
(With Independent Auditor's Report Thereon)

December 31, 2019 and 2018

ADULT AND TEEN CHALLENGE OF TEXAS

Index to Financial Statements
December 31, 2019 and 2018

	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	6
Notes to Financial Statements	7

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, 2019 and 2018 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, 2019 and 2018, 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
November 5, 2020

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>(Restated)</u> <u>2018</u>
Assets		
Cash and cash equivalents	\$ 105,772	\$ 151,028
Grants receivable	1,442,000	750,000
Inventory	26,272	30,623
Note receivable	-	515,466
Investments, at fair value	97,500	97,500
Land, buildings and equipment, net	6,025,409	6,493,132
Total assets	<u>\$ 7,696,953</u>	<u>\$ 8,037,749</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 311,934	\$ 367,226
Capital lease	63,520	-
Debt, net of unamortized loan costs	3,321,278	2,931,008
Asbestos abatement	39,155	39,155
Total liabilities	<u>3,735,887</u>	<u>3,337,389</u>
Net Assets		
Without donor restrictions	2,566,633	3,950,360
With donor restrictions	1,394,433	750,000
Total net assets	<u>3,961,066</u>	<u>4,700,360</u>
Total liabilities and net assets	<u>\$ 7,696,953</u>	<u>\$ 8,037,749</u>

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS
 Statements of Activities
 Years Ended December 31, 2019 and 2018

	2019			2018 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Contributions	\$ 760,612	\$ 1,375,617	\$ 2,136,229	\$ 1,413,343	\$ 750,000	\$ 2,163,343
Student tuition and fees	1,809,167	-	1,809,167	1,083,221	-	1,083,221
Work revenue	890,896	-	890,896	814,062	-	814,062
Crafts and services, net	117,577	-	117,577	145,994	-	145,994
Thrift store sales, net	35,365	-	35,365	100,340	-	100,340
Special events, net	615,011	-	615,011	647,033	-	647,033
Food assistance	282,650	-	282,650	245,696	-	245,696
Rent	51,293	-	51,293	52,474	-	52,474
	<u>4,562,571</u>	<u>1,375,617</u>	<u>5,938,188</u>	<u>4,502,163</u>	<u>750,000</u>	<u>5,252,163</u>
Net Assets Released	<u>731,184</u>	<u>(731,184)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>5,293,755</u>	<u>644,433</u>	<u>5,938,188</u>	<u>4,502,163</u>	<u>750,000</u>	<u>5,252,163</u>
Expenses						
Program services:						
Rehabilitation	3,319,434	-	3,319,434	2,623,201	-	2,623,201
Total program services	<u>3,319,434</u>	<u>-</u>	<u>3,319,434</u>	<u>2,623,201</u>	<u>-</u>	<u>2,623,201</u>
Supporting services:						
Management and general	1,327,486	-	1,327,486	1,266,113	-	1,266,113
Fundraising	277,603	-	277,603	261,580	-	261,580
Total supporting services	<u>1,605,089</u>	<u>-</u>	<u>1,605,089</u>	<u>1,527,693</u>	<u>-</u>	<u>1,527,693</u>
Total expenses	<u>4,924,523</u>	<u>-</u>	<u>4,924,523</u>	<u>4,150,894</u>	<u>-</u>	<u>4,150,894</u>
Change in net assets before other income (expense)	<u>369,232</u>	<u>644,433</u>	<u>1,013,665</u>	<u>351,269</u>	<u>750,000</u>	<u>1,101,269</u>
Other Income (Expense)						
Interest income	25,951	-	25,951	47,198	-	47,198
Loss on sale of fixed assets	(1,791,136)	-	(1,791,136)	(152,644)	-	(152,644)
Other income	12,226	-	12,226	42,487	-	42,487
Total other income (expense)	<u>(1,752,959)</u>	<u>-</u>	<u>(1,752,959)</u>	<u>(62,959)</u>	<u>-</u>	<u>(62,959)</u>
Change in net assets	(1,383,727)	644,433	(739,294)	288,310	750,000	1,038,310
Net assets at beginning of year	3,950,360	750,000	4,700,360	3,662,050	-	3,662,050
Net assets at end of year	<u>\$ 2,566,633</u>	<u>\$ 1,394,433</u>	<u>\$ 3,961,066</u>	<u>\$ 3,950,360</u>	<u>\$ 750,000</u>	<u>\$ 4,700,360</u>

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statement of Functional Expenses

Year Ended December 31, 2019

	Program Services		Supporting Services		
	Rehabilitation	Management and General	Fundraising	Total Supporting Services	
				Total Supporting Services	Total
Salaries and benefits	\$ 1,409,914	\$ 625,768	\$ 250,275	\$ 876,043	\$ 2,285,957
Curriculum	44,818	-	-	-	44,818
Depreciation	266,241	47,543	3,170	50,713	316,954
Housing	674,816	-	-	-	674,816
Insurance	169,762	30,315	2,021	32,336	202,098
Bank fees	-	52,915	-	52,915	52,915
Interest expense	-	148,054	-	148,054	148,054
Maintenance and repairs	308,055	61,409	11,422	72,831	380,886
Office expense	30,674	33,197	195	33,392	64,066
Professional fees	37,342	119,253	177	119,430	156,772
Public relations	-	92,478	5,845	98,323	98,323
Transportation	24,152	4,313	288	4,601	28,753
Utilities	353,660	63,154	4,210	67,364	421,024
Other	-	49,087	-	49,087	49,087
Total expenses	\$ 3,319,434	\$ 1,327,486	\$ 277,603	\$ 1,605,089	\$ 4,924,523

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services		Supporting Services			Total
	Rehabilitation	Management and General	Fundraising	Total Supporting Services		
				Management and General	Fundraising	
Salaries and benefits	\$ 997,344	\$ 687,549	\$ 243,635	\$ 931,184	\$ 1,928,528	
Curriculum	16,619	-	-	-	16,619	
Depreciation	278,420	49,718	3,315	53,033	331,453	
Housing	556,010	-	-	-	556,010	
Insurance	165,672	29,584	1,972	31,556	197,228	
Bank fees	-	37,931	-	37,931	37,931	
Interest expense	-	139,310	-	139,310	139,310	
Maintenance and repairs	205,858	38,391	4,532	42,923	248,781	
Office expense	19,517	32,745	214	32,959	52,476	
Professional fees	15,625	129,490	143	129,633	145,258	
Public relations	1,886	54,287	3,409	57,696	59,582	
Transportation	20,251	3,616	241	3,857	24,108	
Utilities	345,999	61,785	4,119	65,904	411,903	
Other	-	1,707	-	1,707	1,707	
Total expenses	\$ 2,623,201	\$ 1,266,113	\$ 261,580	\$ 1,527,693	\$ 4,150,894	

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018 (Restated)
Cash flows from operating activities		
Change in net assets	\$ (739,294)	\$ 1,038,310
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	316,954	331,453
Loss on disposal of fixed assets	1,791,136	153,314
Changes in operating assets and liabilities:		
Grant receivable	(692,000)	(750,000)
Inventory	4,351	15,990
Accounts payable and accrued liabilities	(55,292)	131,423
Net cash provided by operating activities	625,855	920,490
Cash flows from investing activities		
Purchase of land, buildings and equipment	(1,602,757)	(754,591)
Proceeds from sale of assets	125,000	-
Repayments from notes receivable	515,466	42,770
Net cash used in investing activities	(962,291)	(711,821)
Cash flows from financing activities		
Borrowings on debt	801,072	-
Payment of debt	(573,412)	(112,692)
Payments on capitalized lease obligations	63,520	-
Net cash provided by (used in) financing activities	291,180	(112,692)
(Decrease) increase in cash and cash equivalents	(45,256)	95,977
Cash and cash equivalents at beginning of year	151,028	55,051
Cash and cash equivalents at end of year	\$ 105,772	\$ 151,028
Supplemental disclosures of cash flow information:		
Non-cash: vehicles purchased with debt	\$ 162,610	\$ -
Cash paid for interest	\$ 148,054	\$ 144,245

See accompanying notes to financial statements.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements
December 31, 2019 and 2018

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 and Austin 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 and when payment is reasonably assured.

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, 2019 and 2018

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 that are restricted by the donor, for either purpose or time, are reported as increases in net assets 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 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, 2019 and 2018, 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, candle and clothing made by the students on the various campuses. Inventory is valued at cost. At December 31, 2019 and 2018, there are no reserve for obsolete items.

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2019 and 2018

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 and 2018, 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, 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.

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, 2019 and 2018, respectively.

Liquidity –Financial assets available within one year of the fiscal year end date for general expenditures for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Cash and cash equivalents	\$ 105,772	\$ 151,028
Grants receivable	1,442,000	750,000
Inventory	26,272	30,623
Notes receivable-current	-	46,600
Financial assets available at year end	\$1,574,044	\$ 978,251
	2019	2018
Financial assets available at year end	\$ 1,574,044	\$ 978,251
Less those unavailable for general expenditures within one year, due to:		
Purpose restrictions-FLHA grants	(1,311,023)	(750,000)
Purpose or time restrictions--other	(83,410)	-
Financial assets available to meet cash needs for general expenditures within one year	\$ 179,611	\$ 228,251

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2019 and 2018

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, 2019 and 2018.

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, 2019 and 2018, 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, 2019 and 2018 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, 2019 and 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED

Restatement - The Federal Home Loan Bank of Dallas awarded an Affordable Housing Program grant for \$750,000 in October 2018 (Note 9). This was originally recorded as deferred revenue but 2018 is being restated to record this as donor-restricted contributions. The effect of this restatement as of and for the year ended December 31, 2018 is as follows:

	2018 (Original)	2018 (Restated)
Deferred revenue	\$ 750,000	\$ -
Net assets with donor restrictions	-	750,000
Contributions with donor restrictions	-	750,000
Total contributions	1,413,343	2,163,343
Change in net assets	288,310	1,038,310

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 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, 2019 and 2018, 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.

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, though these entities can early adopt if they so elect. The Organization has elected not to early adopt this ASU as of December 31, 2019. The Organization is required to implement for the year ended December 31, 2020.

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2019 and 2018

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 elected not to early adopt this ASU as of December 31, 2019. Implementation will be required for the Organization’s year ended December 31, 2020.

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.

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 note receivable was received in full with an early prepayment during the year ended December 31, 2019.

NOTE 4 – LAND, BUILDINGS AND EQUIPMENT

Land, buildings, and equipment as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 556,715	\$ 654,842
Buildings and improvements	5,273,905	6,151,090
Leasehold improvements	20,404	22,685
Furniture and equipment	903,751	849,394
Vehicles	870,170	762,834
Construction in progress	595,628	457,798
Total land, buildings and equipment	<u>8,220,573</u>	<u>8,898,643</u>
Less accumulated depreciation	<u>(2,195,164)</u>	<u>(2,405,511)</u>
Net land, buildings and equipment	<u>\$ 6,025,409</u>	<u>\$ 6,493,132</u>

Depreciation expense was \$316,954 and \$331,453 for the years ended December 31, 2019 and 2018, respectively.

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2019 and 2018

NOTE 5 – LONG TERM DEBT

Debt consisted of the following at December 31, 2019 and 2018:

	2019	2018
Note payable 1 to AG Financial, due in monthly installments of \$13,395, including interest; final balloon payment due October 2044, interest at prime (4.75% at December 31, 2019) plus 1.5%; collateralized by the assets of the Organization	\$ 2,198,092	\$ 1,837,478
Note payable 2 to AG Financial, 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, refinanced into note payable 1 during 2019	-	126,743
Note payable 3 to AG Financial, 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, refinanced into note payable 1 during 2019	-	42,786
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	38,932	47,695
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	757,635	790,277
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	7,217	9,188
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	10,065	12,553
Note payable to Frost Bank, representing construction draws for the Magnolia property, interest at prime (4.75% at December 31, 2019) plus 1.25%, paid in full prior to maturing October 2020	92,977	-
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	153,165	-
Note payable to Ed Rachal Foundation, interest at 3%; final payment due May 2033, and collateralized by certain property of the Organization	94,081	97,852
Total debt	3,352,164	2,964,572
Less: Unamortized loan costs	(30,886)	(33,564)
Debt, net of unamortized loan costs	\$ 3,321,278	\$ 2,931,008

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, 2019 and 2018

NOTE 5 – LONG TERM DEBT - CONTINUED

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

2020	\$	216,350
2021		129,685
2022		135,662
2023		134,325
2024		122,738
Thereafter		<u>2,613,404</u>
Total	\$	<u>3,352,164</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u> <u>(Restated)</u>
FHLB-Magnolia project	\$ 657,023	\$750,000
FHLB-San Antonio women’s project	654,000	-
San Antonio women’s building	29,714	-
San Antonio men’s trailer	12,029	-
Operations (time restriction)	<u>41,667</u>	<u>-</u>
	<u>\$1,394,433</u>	<u>\$750,000</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 year ended December 31, 2019 and 2018, the Organization paid approximately \$13,300 and \$12,600, respectively, to Teen Challenge USA.

During the year ended December 31, 2019 and 2018, various members of the Board of Directors and their affiliated organizations, made contributions of approximately \$15,000 and \$16,000 to the Organization, respectively.

NOTE 8 – 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:

	<u>Year Ended December 31, 2019</u>			<u>Year Ended December 31, 2018</u>		
	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>
Crafts/services	\$152,124	\$ 34,547	\$117,577	\$ 206,030	\$ 60,036	\$145,994
Thrift store sales	72,689	37,324	35,365	183,803	83,463	100,340
	<u>224,813</u>	<u>71,871</u>	<u>152,942</u>	<u>389,833</u>	<u>143,499</u>	<u>246,334</u>
Special events	752,671	137,660	615,011	799,311	152,278	647,033
Total	<u>\$977,484</u>	<u>\$209,531</u>	<u>\$767,953</u>	<u>\$1,189,144</u>	<u>\$295,777</u>	<u>\$893,367</u>

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2019 and 2018

NOTE 9 – 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 \$2,120 as of December 31, 2019. 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, 2019. 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>
2020	\$ 14,655
2021	14,655
2022	14,655
2023	13,818
2024	5,737
Total future minimum lease payments	<u>\$ 63,520</u>
Less: Amount representing interest	<u>12,767</u>
Present value of minimum lease payments	<u><u>\$ 50,753</u></u>

At December 31, 2019, the present value of minimum lease payments due within one year is \$9,798.

Total equipment and building space rent expense for the years ended December 31, 2019 and 2018 was approximately \$87,000 and \$98,000, 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>
2020	\$ 32,156
2021	16,260
2022	4,065
Total future minimum lease payments	<u><u>\$ 52,481</u></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, 2019 and 2018.

Commitments - In October 2017, the Federal Home Loan Bank of Dallas awarded an Affordable Housing Program grant for \$500,000 for construction of a housing unit at the Azle, Texas location. This grant was drawn on as construction progressed. Construction began in May 2018. At December 31, 2018, approximately \$285,000 in construction cost had been completed with final completion in June 2019

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2019 and 2018

NOTE 9 – COMMITMENTS AND CONTINGENCIES - CONTINUED

In October 2018, the Federal Home Loan Bank of Dallas awarded an Affordable Housing Program grant for \$750,000 for construction of a housing unit at the Magnolia, Texas location. This grant can be drawn on as construction progresses. At December 31, 2019, \$750,000 is recorded as a grant receivable with construction commencing November 2019. Subsequent to year end, construction was completed in October 2020 for a total of approximately \$650,000 drawn from this grant.

In October 2019, the Federal Home Loan Bank of Dallas awarded an Affordable Housing Program grant for \$692,000 for construction for the women's unit at the San Antonio, Texas location. This grant can be drawn on as construction progresses. At December 31, 2019, \$692,000 is recorded as a grant receivable. Subsequent to year end, construction began in early 2020 and is expected to be completed by January 2021. Approximately \$102,000 has been borrowed from the construction loan subsequent to year end but no draws from the grant have yet been made.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 5, 2020, the date the financial statements were available to be issued.

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 \$427,000 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. This loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government. On November 2, 2020 The Small Business Administration forgave the entire loan balance.

In August 2020, the Organization signed a lease for buildings and land located in Kingsville, Texas. The lease term is two years from October 2020 through October 2022 with an option to purchase. The total lease commitment is \$84,000. At the end of the lease, the property may be purchased for \$550,000, with \$24,000 of the prior two years' lease payments credited against the purchase cost.

In late October 2020, the Organization was awarded an additional \$700,000 Federal Home Loan Grant for their Alvin campus.

In early November 2020, The Organization received donations of property, buildings, and vehicles worth an estimated \$750,000 for a new men's program in Paris, Texas. The Organization expects to open this new location in January 2021.