

ADULT AND TEEN CHALLENGE OF TEXAS

Financial Statements
(With Independent Auditor's Report Thereon)

December 31, 2021 and 2020

ADULT AND TEEN CHALLENGE OF TEXAS

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December 31, 2021 and 2020

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Independent Auditor's Report

To the Board of Directors
Adult and Teen Challenge of Texas

Opinion

We have audited the accompanying financial statements of Adult and Teen Challenge of Texas (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020 and the related statements of activities and changes in net assets, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Adult and Teen Challenge of Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Adult and Teen Challenge of Texas' ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Adult and Teen Challenge of Texas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Adult and Teen Challenge of Texas' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

STILL BURTON LLP

Still Burton LLP

Farmers Branch, Texas
September 29, 2022

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Financial Position

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 1,240,583	\$ 128,874
Grants receivable	1,320,935	1,392,000
Inventory	27,114	7,541
Property and equipment, net	<u>8,694,474</u>	<u>7,962,570</u>
Total assets	<u>\$ 11,283,106</u>	<u>\$ 9,490,985</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 245,908	\$ 292,840
Capital lease	31,186	52,903
Debt, net of unamortized loan costs	3,348,359	3,593,402
Asbestos abatement	<u>39,155</u>	<u>39,155</u>
Total liabilities	3,664,608	3,978,300
Net Assets		
Without donor restrictions	6,053,685	3,999,183
With donor restrictions	<u>1,564,813</u>	<u>1,513,502</u>
Total net assets	<u>7,618,498</u>	<u>5,512,685</u>
Total liabilities and net assets	<u>\$ 11,283,106</u>	<u>\$ 9,490,985</u>

See accompanying notes and independent auditor's report.

ADULT AND TEEN CHALLENGE OF TEXAS
 Statements of Activities
 Years Ended December 31, 2021 and 2020

	<u>2021</u>			<u>2020</u>		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>	<u>Without</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>		<u>Donor</u>	<u>Restrictions</u>	
Revenues						
Contributions	\$ 1,248,879	\$ 1,725,586	\$ 2,974,465	\$ 1,508,610	\$ 1,576,287	\$ 3,084,897
Student tuition and fees, net	2,376,475	-	2,376,475	2,190,640	-	2,190,640
Work revenue	1,401,090	-	1,401,090	799,676	-	799,676
Crafts and services	225,511	-	225,511	128,570	-	128,570
Thrift store sales	46,666	-	46,666	45,988	-	45,988
Fundraising events	754,203	-	754,203	438,031	-	438,031
Food assistance	397,974	-	397,974	261,365	-	261,365
Rent	47,088	-	47,088	44,253	-	44,253
Interest income	12,547	-	12,547	83	-	83
Loss on redemption of investments/sale of assets	1,614	-	1,614	(23,246)	-	(23,246)
Other income	480,466	-	480,466	32,689	-	32,689
	<u>6,992,513</u>	<u>1,725,586</u>	<u>8,718,099</u>	<u>5,426,659</u>	<u>1,576,287</u>	<u>7,002,946</u>
Net Assets Released	<u>1,674,275</u>	<u>(1,674,275)</u>	<u>-</u>	<u>1,457,218</u>	<u>(1,457,218)</u>	<u>-</u>
Total revenues	<u>8,666,788</u>	<u>51,311</u>	<u>8,718,099</u>	<u>6,883,877</u>	<u>119,069</u>	<u>7,002,946</u>
Expenses						
Program services:						
Rehabilitation	<u>4,765,109</u>	<u>-</u>	<u>4,765,109</u>	<u>3,807,487</u>	<u>-</u>	<u>3,807,487</u>
Total program services	<u>4,765,109</u>	<u>-</u>	<u>4,765,109</u>	<u>3,807,487</u>	<u>-</u>	<u>3,807,487</u>
Supporting services:						
Management and general	<u>1,337,148</u>	<u>-</u>	<u>1,337,148</u>	<u>1,261,914</u>	<u>-</u>	<u>1,261,914</u>
Fundraising	<u>510,029</u>	<u>-</u>	<u>510,029</u>	<u>381,926</u>	<u>-</u>	<u>381,926</u>
Total supporting services	<u>1,847,177</u>	<u>-</u>	<u>1,847,177</u>	<u>1,643,840</u>	<u>-</u>	<u>1,643,840</u>
Total expenses	<u>6,612,286</u>	<u>-</u>	<u>6,612,286</u>	<u>5,451,327</u>	<u>-</u>	<u>5,451,327</u>
Change in net assets	2,054,502	51,311	2,105,813	1,432,550	119,069	1,551,619
Net assets at beginning of year	3,999,183	1,513,502	5,512,685	2,566,633	1,394,433	3,961,066
Net assets at end of year	<u>\$ 6,053,685</u>	<u>\$ 1,564,813</u>	<u>\$ 7,618,498</u>	<u>\$ 3,999,183</u>	<u>\$ 1,513,502</u>	<u>\$ 5,512,685</u>

See accompanying notes and independent auditor's report.

ADULT AND TEEN CHALLENGE OF TEXAS

Statement of Functional Expenses

Year Ended December 31, 2021

(With Comparative Totals for the Year Ended December 31, 2020)

	Program Services	Supporting Services			Total 2021	Total 2020
	Rehabilitation	Management and General	Fundraising	Total Supporting Services		
Salaries and benefits	\$ 2,462,299	529,132	298,947	\$ 828,079	\$ 3,290,378	\$ 2,792,310
Housing	793,931	535	36	571	794,502	595,601
Utilities	417,771	75,133	5,009	80,142	497,913	431,942
Maintenance and repairs	319,456	69,213	18,350	87,563	407,019	337,761
Depreciation	344,381	61,496	4,100	65,596	409,977	311,934
Insurance	212,474	37,943	2,529	40,472	252,946	223,992
Professional fees	29,686	182,329	353	182,682	212,368	143,573
Interest expense	-	158,768	-	158,768	158,768	150,438
Special events	-	-	121,544	121,544	121,544	76,576
Public relations	603	107,090	10,059	117,149	117,752	79,970
Office expense	65,060	38,992	664	39,656	104,716	92,347
Bank fees	-	68,633	-	68,633	68,633	69,682
Curriculum	76,560	-	-	-	76,560	64,117
Thrift store	4,193	-	-	-	4,193	3,764
Crafts and services	-	-	48,021	48,021	48,021	51,371
Transportation	35,065	6,262	417	6,679	41,744	21,955
Other	3,630	1,622	-	1,622	5,252	3,994
Total expenses 2021	<u>\$ 4,765,109</u>	<u>\$ 1,337,148</u>	<u>\$ 510,029</u>	<u>\$ 1,847,177</u>	<u>\$ 6,612,286</u>	
Total expenses 2020	<u>\$ 3,807,487</u>	<u>\$ 1,261,914</u>	<u>\$ 381,926</u>	<u>\$ 1,643,840</u>		<u>\$ 5,451,327</u>

See accompanying notes and independent auditor's report.

ADULT AND TEEN CHALLENGE OF TEXAS

Statement of Functional Expenses

Year Ended December 31, 2020

	Program Services		Supporting Services		
	Rehabilitation	Management and General	Fundraising	Total Supporting Services	Total
Salaries and benefits	\$ 1,992,113	\$ 575,991	\$ 224,206	\$ 800,197	\$ 2,792,310
Housing	595,460	132	9	141	595,601
Utilities	362,832	64,791	4,319	69,111	431,943
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	123,611	235	123,846	143,572
Office expense	36,621	55,290	436	55,726	92,347
Public relations	-	75,370	4,600	79,970	79,970
Special 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	1,906	2,088	-	2,088	3,994
Total expenses	\$ 3,807,487	\$ 1,261,914	\$ 381,926	\$ 1,643,840	\$ 5,451,327

See accompanying notes and independent auditor's report.

ADULT AND TEEN CHALLENGE OF TEXAS

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 2,105,813	\$ 1,551,619
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	409,977	311,934
Gain on sale of property and equipment	(3,671)	-
Donated land	(11,200)	-
Loss on redemption of investments	-	23,246
Forgiveness of PPP loan	(620,700)	-
Changes in operating assets and liabilities:		
Grant receivable	71,065	50,000
Inventory	(19,573)	18,731
Accounts payable and accrued liabilities	(46,932)	(19,094)
Net cash provided by operating activities	<u>1,884,779</u>	<u>1,936,436</u>
 Cash flows from investing activities		
Purchase of land, buildings and equipment	(906,075)	(2,249,095)
Proceeds from sale of property and equipment	30,248	-
Net cash used in investing activities	<u>(875,827)</u>	<u>(2,249,095)</u>
 Cash flows from financing activities		
Borrowings on debt	460,149	392,388
Payment of debt	(956,375)	(120,264)
Proceeds from PPP loan	620,700	-
Receipts from sale of investments	-	74,254
Payments on capitalized lease obligations	(21,717)	(10,617)
Net cash provided by financing activities	<u>102,757</u>	<u>335,761</u>
 Increase in cash and cash equivalents	1,111,709	23,102
Cash and cash equivalents at beginning of year	128,874	105,772
Cash and cash equivalents at end of year	<u>\$ 1,240,583</u>	<u>\$ 128,874</u>
 Supplemental disclosures of cash flow information:		
Non-cash: Property and equipment purchased with debt	<u>\$ 251,132</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ 158,768</u>	<u>\$ 150,438</u>

See accompanying notes and independent auditor's report.

ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements
December 31, 2021 and 2020

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. 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.

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.

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.

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 9.)

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, 2021 and 2020, there are no reserve for obsolete items per management’s estimate.

Advertising Costs -

Advertising costs are expensed as incurred. At December 31, 2021 and 2020, advertising costs aggregated approximately \$100,500 and \$75,200, respectively.

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

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, 2020, the Organization held two church certificates of deposit for a total of \$97,500 that were redeemable in 2031 and 2033. The certificates could 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 for the year ended December 31, 2020.

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	lesser 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, 2021 and 2020.

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.

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Revenue Recognition - Revenues from special events represent 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 the event.

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.

The students make certain crafts, such as jewelry, wood products, air fresheners, and candles, which are given to donors at special events as thank you gifts. The revenue is recognized at the time of donation.

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 property 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 years ended December 31, 2021 and 2020, 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.

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNT POLICIES - CONTINUED

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, 2021 and 2020, 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, 2021 and 2020 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.

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.

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, 2021 and 2020, respectively, the Organization held approximately \$1 million and \$0 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 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, 2021. The Organization is required to implement this ASU for the year ended December 31, 2022.

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 year ended December 31, 2022. 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, 2021 and 2020

NOTE 3 – LIQUIDITY

Financial assets available within one year of the fiscal year end date for general expenditures are as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,240,583	\$ 128,874
Grants receivable	1,320,935	1,392,000
Inventory	<u>27,114</u>	<u>7,541</u>
Financial assets available at year end	\$ 2,588,632	\$ 1,528,415
Less those unavailable for general expenditures within one year, due to:		
Purpose restrictions-FHLB grants	(1,320,935)	(1,392,000)
Purpose or time restrictions-other	<u>(243,878)</u>	<u>(121,502)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,023,819</u>	<u>\$ 14,913</u>

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.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are as follows at December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 600,415	\$ 589,215
Buildings and improvements	8,451,967	7,477,512
Leasehold improvements	20,404	20,404
Furniture and equipment	860,807	769,006
Vehicles	1,010,164	916,357
Construction in progress	<u>321,304</u>	<u>497,162</u>
Total land, buildings and equipment	11,265,061	10,269,656
Less accumulated depreciation	<u>(2,570,587)</u>	<u>(2,307,086)</u>
Net property and equipment	<u>\$ 8,694,474</u>	<u>\$ 7,962,570</u>

Depreciation expense was \$409,977 and \$311,934 for the years ended December 31, 2021 and 2020, respectively.

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2021 and 2020

NOTE 5 – LONG TERM DEBT

Debt consisted of the following at December 31:

	2021	2020
Note payable 1 to AG Financial, due in monthly installments of \$13,395, including interest; final balloon payment due October 2044, interest at 5.375% at December 31, 2021; collateralized by the assets of the Organization	\$ 2,121,053	\$ 2,166,170
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	23,910	31,421
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	701,012	735,324
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	2,057	5,122
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	3,855	7,187
Note payable to Frost Bank, representing construction draws for the certain properties, interest at prime (3.25% at December 31, 2021) plus 1.25%	98,046	458,962
Vehicle loans, due in monthly installments aggregating \$3,164, including interest; maturities between March 2024 and October 2027; interest ranging between 4.99% and 6.99%; collateralized by vehicles	341,773	128,599
Note payable to Ed Rachal Foundation, interest at 3%; final payment due May 2033, and collateralized by certain property of the Organization	87,539	91,503
Total debt	3,379,245	3,624,288
Less: Unamortized loan costs	(30,886)	(30,886)
Debt, net of unamortized loan costs	\$ 3,348,359	\$ 3,593,402

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 related AG Financial debt through October 2044.

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

2022	\$ 275,828
2023	171,206
2024	169,688
2025	148,708
2026	160,173
Thereafter	2,453,642
Total	\$ 3,379,245

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2021 and 2020

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31:

	<u>2021</u>	<u>2020</u>
FHLB-Alvin project	\$ 570,935	\$ 700,000
FHLB-San Antonio women’s project	-	654,000
FHLB-Kingsville project	750,000	-
San Antonio women’s building	109,665	105,806
San Antonio men’s trailer	12,029	12,029
Women and children’s home	17,716	-
Brenham dorm	21,350	-
Alvin dorm	71,618	-
Chinese crisis center	11,500	-
Operations (time restriction)	-	41,667
	<u>\$1,564,813</u>	<u>\$1,513,502</u>

NOTE 7 – 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 years ended December 31, 2021 and 2020, the Organization paid approximately \$29,700 and \$25,500, respectively, to Adult & Teen Challenge USA.

During the years ended December 31, 2021 and 2020, various members of the Board of Directors and their affiliated organizations, made contributions of approximately \$29,000 and \$16,000 to the Organization, respectively.

NOTE 8 – STORE SALES, CRAFTS AND SPECIAL EVENTS

The Organization operates thrift stores, gives crafts as gifts for donations made, and conducts special events to raise funds for operations.

	<u>Year Ended December 31, 2021</u>			<u>Year Ended December 31, 2020</u>		
	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>
Crafts/services	\$ 225,511	\$ 48,021	\$177,490	\$128,570	\$ 27,149	\$101,421
Thrift store sales	46,666	4,760	41,906	45,988	3,764	42,224
	<u>272,177</u>	<u>52,781</u>	<u>219,396</u>	<u>174,558</u>	<u>30,913</u>	<u>143,645</u>
Special events	754,203	121,544	632,659	438,031	76,576	361,455
Total	<u>\$1,026,380</u>	<u>\$174,325</u>	<u>\$852,055</u>	<u>\$612,589</u>	<u>\$107,489</u>	<u>\$505,100</u>

ADULT AND TEEN CHALLENGE OF TEXAS
Notes to the Financial Statements - Continued
December 31, 2021 and 2020

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 \$17,895 as of December 31, 2021. 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, 2021. 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>
2022	\$ 14,655
2023	15,491
2024	8,948
Present value of minimum lease payments	<u>\$ 39,094</u>

At December 31, 2021, the present value of minimum lease payments due within one year is \$12,058.

Total equipment and building space rent expense for the years ended December 31, 2021 and 2020 was approximately \$124,000 and \$99,000, 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>
2022	\$ 43,260
2023	16,260
2024	16,260
2025	12,195
Total future minimum lease payments	<u>\$ 87,975</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, 2021 and 2020.

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 was recorded as a grant receivable. 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, 2021 and 2020

NOTE 9 – COMMITMENTS AND CONTINGENCIES - CONTINUED

In November 2020, the FHLB awarded an Affordable Housing Program grant for \$700,000 for construction for the men's unit at the Alvin, Texas location. This grant can be drawn on as construction progresses. At December 31, 2021 and 2020, \$570,935 and \$700,000, respectively, is recorded as a grant receivable. Construction began in 2021 and is expected to complete in 2022. Subsequent to year end remaining balance of the grant has been drawn down.

In October 2021, the FHLB awarded an Affordable Housing Program grant for \$750,000 for construction for the men's unit at the Kingsville, Texas campus. This grant can be drawn on as construction progresses. At December 31, 2021 \$750,000 is recorded as a grant receivable. Construction began in 2022. The project is expected to be completed in December 2022.

NOTE 10 – 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 and January 2021, the Organization obtained approximately \$428,000 and \$621,000, respectively, 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. In November 2020 and June 2021, the Small Business Administration forgave the entire loan balances of approximately \$428,000 and \$621,000, respectively. The amounts forgiven are shown as contribution income on the statement of activities.

During the year ended December 31, 2021, the Organization received approximately \$480,000 through the federal government based on the employee retention tax credit program, another program to ease the burden of the pandemic. This is shown as other income on the statement of activities.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2022, the date the financial statements were available to be issued.

In March 2022, a 10-year lease commitment aggregating approximately \$1.5 million was entered into for a camp in Kerrville, Texas.

In June 2022, a conditional donation of land and improvements located in Montgomery, Texas with an estimated value of approximately \$1,150,000 was donated. The donation is conditional upon the Organization fulfilling certain obligations and operations during a three-year period.

In July 2022, a thrift store in Montgomery, Texas, along with its contents (value estimated at approximately \$161,000) and remaining lease obligation (aggregating approximately \$400,000), was donated.