

# ADULT AND TEEN CHALLENGE OF TEXAS

Financial Statements  
(With Independent Auditor's Report)

December 31, 2023 and 2022

# ADULT AND TEEN CHALLENGE OF TEXAS

Index to Financial Statements  
December 31, 2023 and 2022

	<u>Page</u>
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	8

## 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, 2023 and 2022 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, 2023 and 2022, 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 26, 2024

**ADULT AND TEEN CHALLENGE OF TEXAS**

Statements of Financial Position

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 447,437	\$ 707,665
Grants receivable	850,000	275,561
Inventory	21,565	28,333
Property and equipment, net	9,807,348	10,022,972
Right-of-use assets - financing	<u>704,747</u>	<u>969,735</u>
Total assets	<u>\$ 11,831,097</u>	<u>\$ 12,004,266</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 270,382	\$ 434,174
Right-of-use liabilities - financing	753,385	989,999
Line of credit	-	203,507
Debt, net of unamortized loan costs	2,911,361	3,088,734
Asbestos abatement	<u>39,155</u>	<u>39,155</u>
Total liabilities	<u>3,974,283</u>	<u>4,755,569</u>
<b>Net Assets</b>		
Without donor restrictions	6,748,137	6,619,641
With donor restrictions	<u>1,108,677</u>	<u>629,056</u>
Total net assets	<u>7,856,814</u>	<u>7,248,697</u>
Total liabilities and net assets	<u>\$ 11,831,097</u>	<u>\$ 12,004,266</u>

See accompanying notes and independent auditor's report.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Statements of Activities and Changes in Net Assets  
Years Ended December 31, 2023 and 2022

	<u>2023</u>			<u>2022</u>		
	<u>Without</u>	<u>With Donor</u>	<u>Total</u>	<u>Without</u>	<u>With Donor</u>	<u>Total</u>
	<u>Donor</u>	<u>Restrictions</u>		<u>Donor</u>	<u>Restrictions</u>	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
<b>Revenues</b>						
Student tuition and fees	\$ 2,948,367	\$ -	\$ 2,948,367	\$ 2,726,651	\$ -	\$ 2,726,651
Work revenue	1,610,777	-	1,610,777	1,591,054	-	1,591,054
Contributions	1,404,722	1,398,893	2,803,615	987,629	380,135	1,367,764
In-kind contributions	-	-	-	10,909	-	10,909
Special events-in-kind auction donations	111,594	-	111,594	100,846	-	100,846
Special events, net of direct costs	707,217	-	707,217	597,516	-	597,516
Crafts and services	215,084	-	215,084	203,969	-	203,969
Thrift store sales	439,924	-	439,924	459,737	-	459,737
Food assistance	435,307	-	435,307	444,635	-	444,635
Rent	49,897	-	49,897	57,425	-	57,425
Interest income	9,264	-	9,264	4,990	-	4,990
(Loss) gain on disposal of fixed assets	(23,201)	-	(23,201)	16,715	-	16,715
Employee retention credit	464,982	-	464,982	-	-	-
Other income	33,426	-	33,426	44,225	-	44,225
	<u>8,407,360</u>	<u>1,398,893</u>	<u>9,806,253</u>	<u>7,246,301</u>	<u>380,135</u>	<u>7,626,436</u>
<b>Net Assets Released</b>	<u>919,272</u>	<u>(919,272)</u>	<u>-</u>	<u>1,315,892</u>	<u>(1,315,892)</u>	<u>-</u>
Total revenues	<u>9,326,632</u>	<u>479,621</u>	<u>9,806,253</u>	<u>8,562,193</u>	<u>(935,757)</u>	<u>7,626,436</u>
<b>Expenses</b>						
Program services:						
Rehabilitation	6,436,132	-	6,436,132	5,464,723	-	5,464,723
Total program services	<u>6,436,132</u>	<u>-</u>	<u>6,436,132</u>	<u>5,464,723</u>	<u>-</u>	<u>5,464,723</u>
Supporting services:						
Management and general	1,928,506	-	1,928,506	1,657,953	-	1,657,953
Fundraising	833,498	-	833,498	873,561	-	873,561
Total supporting services	<u>2,762,004</u>	<u>-</u>	<u>2,762,004</u>	<u>2,531,514</u>	<u>-</u>	<u>2,531,514</u>
Total expenses	<u>9,198,136</u>	<u>-</u>	<u>9,198,136</u>	<u>7,996,237</u>	<u>-</u>	<u>7,996,237</u>
Change in net assets	128,496	479,621	608,117	565,956	(935,757)	(369,801)
Net assets at beginning of year	6,619,641	629,056	7,248,697	6,053,685	1,564,813	7,618,498
Net assets at end of year	<u>\$ 6,748,137</u>	<u>\$ 1,108,677</u>	<u>\$ 7,856,814</u>	<u>\$ 6,619,641</u>	<u>\$ 629,056</u>	<u>\$ 7,248,697</u>

See accompanying notes and independent auditor's report.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Statement of Functional Expenses  
Year Ended December 31, 2023  
(With Comparative Totals for the Year Ended December 31, 2022)

	<b>Program Services</b>		<b>Supporting Services</b>			<b>Total 2023</b>	<b>Total 2022</b>
	<b>Rehabilitation</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>			
Salaries and benefits	\$ 2,984,129	\$ 930,402	\$ 742,231	\$ 1,672,633	\$ 4,656,762	\$ 3,814,797	
Housing	1,078,188	619	41	660	1,078,848	987,673	
Utilities	681,421	121,682	8,112	129,794	811,215	701,313	
Maintenance and repairs	335,820	71,688	18,010	89,698	425,518	406,688	
Depreciation	663,335	118,453	7,897	126,350	789,685	620,008	
Insurance	418,882	74,800	4,987	79,787	498,669	290,462	
Interest expense	-	217,929	-	217,929	217,929	198,000	
Professional fees	36,595	96,653	-	96,653	133,248	139,602	
Office expense	117,424	49,263	122,442	171,705	289,129	463,396	
Public relations	2,200	131,441	50,525	181,966	184,166	103,148	
Special events	-	-	-	-	-	246,275	
Bank fees	-	106,466	-	106,466	106,466	92,386	
Curriculum	95,751	-	-	-	95,751	115,442	
Transportation	26,811	4,788	319	5,107	31,918	41,195	
Other	(4,424)	4,322	-	4,322	(102)	22,127	
	<u>6,436,132</u>	<u>1,928,506</u>	<u>954,564</u>	<u>2,883,070</u>	<u>9,319,202</u>	<u>8,242,512</u>	
Less: Costs included with revenue in statement of activities and net assets	-	-	(121,066)	-	(121,066)	(246,275)	
Total expenses 2023	<u>\$ 6,436,132</u>	<u>\$ 1,928,506</u>	<u>\$ 833,498</u>	<u>\$ 2,883,070</u>	<u>\$ 9,198,136</u>		
Total expenses 2022	<u>\$ 5,464,723</u>	<u>\$ 1,657,953</u>	<u>\$ 873,561</u>	<u>\$ 2,531,514</u>		<u>\$ 7,996,237</u>	

See accompanying notes and independent auditor's report.

**ADULT AND TEEN CHALLENGE OF TEXAS**

Statement of Functional Expenses

Year Ended December 31, 2022

	<b>Program Services</b>		<b>Supporting Services</b>			<b>Total 2022</b>
	<b>Rehabilitation</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>		
Salaries and benefits	\$ 2,446,800	\$ 761,627	\$ 606,370	\$ 1,367,997	\$ 3,814,797	
Housing	986,996	635	42	677	987,673	
Utilities	589,103	105,197	7,013	112,210	701,313	
Maintenance and repairs	328,234	65,870	12,584	78,454	406,688	
Depreciation	520,807	93,001	6,200	99,201	620,008	
Insurance	243,988	43,569	2,905	46,474	290,462	
Professional fees	32,651	106,951	-	106,951	139,602	
Interest expense	-	198,000	-	198,000	198,000	
Special events	-	-	246,275	246,275	246,275	
Public relations	-	103,148	-	103,148	103,148	
Office expense	148,731	76,630	238,035	314,665	463,396	
Bank fees	-	92,386	-	92,386	92,386	
Curriculum	115,442	-	-	-	115,442	
Transportation	34,604	6,179	412	6,591	41,195	
Other	17,367	4,760	-	4,760	22,127	
	<u>\$ 5,464,723</u>	<u>\$ 1,657,953</u>	<u>\$ 1,119,836</u>	<u>\$ 2,777,789</u>	<u>\$ 8,242,512</u>	
Less: Costs included with revenue in statement of activities and net assets	-	-	(246,275)	(246,275)	(246,275)	
<b>Total expenses 2022</b>	<u><u>\$ 5,464,723</u></u>	<u><u>\$ 1,657,953</u></u>	<u><u>\$ 873,561</u></u>	<u><u>\$ 2,531,514</u></u>	<u><u>\$ 7,996,237</u></u>	

See accompanying notes and independent auditor's report.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
 Statements of Cash Flows  
 Years Ended December 31, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 608,117	\$ (369,801)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization of property and equipment	524,696	487,246
Amortization of financing right-of-use assets	264,989	132,762
Loss on disposal of property and equipment	23,201	(16,715)
Changes in operating assets and liabilities:		
Grant receivable	(574,439)	1,045,374
Inventory	6,768	(1,219)
Accounts payable and accrued liabilities	(171,188)	197,094
Net cash provided by operating activities	682,144	1,474,741
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(325,515)	(1,807,756)
Proceeds from sale of property and equipment	-	33,858
Net cash used in investing activities	(325,515)	(1,773,898)
<b>Cash flows from financing activities</b>		
Principal payments on debt obligations	(177,373)	(187,900)
Line of credit	(203,507)	105,461
Principal payments on right-of-use liabilities	(235,977)	(151,322)
Net cash used in financing activities	(616,857)	(233,761)
Decrease in cash and cash equivalents	(260,228)	(532,918)
Cash and cash equivalents at beginning of year	707,665	1,240,583
Cash and cash equivalents at end of year	\$ 447,437	\$ 707,665
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 217,929	\$ 197,999
<b>Non-cash investing and financing:</b>		
Property and equipment purchased with debt	\$ -	\$ 25,132
Acquisition of property and equipment through right-of-use lease obligation	\$ -	\$ 1,101,929

See accompanying notes and independent auditor's report.

## ADULT AND TEEN CHALLENGE OF TEXAS

Notes to the Financial Statements  
December 31, 2023 and 2022

### 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 11.)

**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, 2023 and 2022, there are no reserves for obsolete items per management’s estimate.

**Advertising Costs** -

Advertising costs are expensed as incurred. At December 31, 2023 and 2022, advertising costs aggregated approximately \$131,000 and \$101,900, respectively.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2023 and 2022

**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 statements 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.

**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, 2023 and 2022.

**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, 2023 and 2022

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

**Revenue Recognition** - The Organization's revenue is recognized as follows for each significant revenue stream:

**Student tuition and fees** - Students pay fees for tuition which is recognized over the period of service.

**Work revenue** - 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.

**Contributions** - 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 are recorded as 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 with donor restrictions. When a restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions.

**Special events** - 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.

**Crafts and services** - 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.

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

**Food assistance** – Food assistance is 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.

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

**In-kind** - 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. Donated assets are recorded at their estimated fair market values at the date of receipt. 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. During the years ended December 31, 2023 and 2022, 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, 2023 and 2022

**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, 2023 and 2022, 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, 2023 and 2022 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, 2023 and 2022, respectively, the Organization held approximately \$187,000 and \$465,000 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** - On June 16, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-13, **Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments**, which replaces the incurred loss impairment methodology with an expected loss methodology referred to as the current expected credit losses (“CECL”) model. This model requires organizations to estimate credit losses immediately upon exposure and applies to financial assets measured at amortized cost including loans and trade receivables. On November 15, 2019, the FASB issued ASU 2019-10, deferring the effective date for ASU 2016-13 to annual periods beginning after December 15, 2022. The Organization adopted this ASU during the year ended December 31, 2023 with no additional credit loss estimated.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2023 and 2022

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

***Recent Accounting Pronouncements – Continued***

In February 2016, the FASB issued ASU 2016-02, ***Leases (Topic 842)***. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, ***Leases (Topic 842): Targeted Improvements***, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e., the comparatives under ASC 840 option. The Organization adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted.

In September 2020, the FASB issued ASU 2020-07, ***Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets***. With this ASU, organizations receiving contributions of nonfinancial assets are now required to present such contributions as a separate line item on the statement of activities and changes in net assets. Additionally, more detailed disclosures will be required, including both goods and services. The ASU is effective for fiscal years beginning after June 15, 2021. The Organization adopted this ASU during the year ended December 31, 2022 with insignificant impact to the financial statements.

**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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 447,437	\$ 707,665
Grants receivable	850,000	275,561
Inventory	21,565	28,333
Financial assets available at year end	<u>1,319,002</u>	<u>1,011,559</u>
Less those unavailable for general expenditures within one year, due to:		
Purpose restrictions-FHLB grants	(805,500)	(589,756)
Purpose or time restrictions-other	<u>(303,177)</u>	<u>(39,300)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 210,325</u>	<u>\$ 382,503</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.

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2023 and 2022

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment are as follows at December 31:

	<u>2023</u>	<u>2022</u>
Land	\$ 600,415	\$ 600,415
Buildings and improvements	10,223,198	9,834,857
Leasehold improvements	163,400	143,409
Furniture and equipment	1,094,385	1,002,587
Vehicles	1,054,616	1,039,071
Construction in progress	182,081	399,864
Total land, buildings and equipment	<u>13,318,095</u>	<u>13,020,203</u>
Less accumulated depreciation	<u>(3,510,747)</u>	<u>(2,997,231)</u>
Net property and equipment	<u>\$ 9,807,348</u>	<u>\$ 10,022,972</u>

Depreciation expense was approximately \$525,000 and \$487,000 for the years ended December 31, 2023 and 2022, respectively.

**NOTE 5 – RIGHT-OF-USE LEASE ASSET AND LIABILITY**

The Company leases property, vehicles and equipment under non-cancelable operating leases. ROU assets related to finance lease agreements are recorded at present value of the lease payments, for all leases with original terms longer than 12 months, utilizing a discount rate equal to the risk-free interest rate. The weighted average lease term outstanding is 7 years with a weighted average discount rate of 4.75%.

For the years ended December 31, 2023 and 2022, the Company reported amortization expense of approximately \$265,000 and \$133,000, respectively, related to these ROU assets. For the years ended December 31, 2023 and 2022, the Company reported interest expense of approximately \$60,000 and \$35,000, respectively, related to these ROU liabilities. The ROU assets related to the financing leases are as follows at December 31:

	<u>2023</u>	<u>2022</u>
Asset costs	\$ 1,169,764	\$ 1,169,764
Accumulated amortization	<u>(465,017)</u>	<u>(200,029)</u>
Net unamortized asset costs	<u>\$ 704,747</u>	<u>\$ 969,735</u>

The ROU liabilities at December 31, 2023 are payable in monthly principal and interest installments of various amounts and mature through April 2032. Maturities for the ROU liability are as follows:

For the years ending December 31,

	<u>Total</u>
2024	\$ 231,713
2025	108,435
2026	98,940
2027	98,205
2028	96,000
Thereafter	<u>320,000</u>
Total	953,293
Less interest	<u>(199,908)</u>
Finance lease liability	<u>\$ 753,385</u>

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2023 and 2022

**NOTE 6 – LONG TERM DEBT**

Debt consisted of the following at December 31:

	<b>2023</b>	<b>2022</b>
Note payable 1 to AG Financial, due in monthly installments of \$13,395, including interest; final balloon payment due October 2044, interest at 5.5% at December 31, 2022; collateralized by the assets of the Organization	\$ 2,006,044	\$ 2,063,109
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	10,140	17,651
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	629,223	665,655
Vehicle loans, due in monthly installments aggregating \$7,467, including interest; maturities between March 2024 and October 2028; interest ranging between 4.99% and 7.99%; collateralized by vehicles	217,596	289,751
Note payable to Ed Rachal Foundation, interest at 3%; final payment due May 2033, and collateralized by certain property of the Organization	79,244	83,454
Total debt	2,942,247	3,119,620
Less: Unamortized loan costs	(30,886)	(30,886)
Debt, net of unamortized loan costs	\$ 2,911,361	\$ 3,088,734

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:

2024	\$	172,429
2025		150,005
2026		155,606
2027		153,557
2028		118,252
Thereafter		2,192,398
Total	\$	2,942,247

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2023 and 2022

**NOTE 7 – LINE OF CREDIT**

A construction line of credit with Frost Bank, related to the federal home loan bank grants, aggregated \$203,507 at December 31, 2022. These accumulate draws for reimbursement of construction costs until such time as the construction project is completed. At completion, the loan is “forgiven” against accumulated construction costs in grants receivable. At December 31, 2023, there was no outstanding balance on the line of credit.

**NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2023</u>	<u>2022</u>
FHLB-Alvin project	\$ -	\$ 31,383
Magnolia project	7,600	7,600
FHLB-Kingsville project	-	558,373
Azle campus	20,000	20,000
Chinese crisis center	11,700	11,700
San Antonio graduate housing	805,500	-
Training program	7,500	-
General campus design	25,000	-
Campus renovations	227,475	-
Trailers	3,902	-
	<u>\$1,108,677</u>	<u>\$629,056</u>

**NOTE 9 – 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 \$225 per center per month. During the years ended December 31, 2023 and 2022, the Organization paid approximately \$28,600 and \$31,300, respectively, to Adult & Teen Challenge USA.

During the years ended December 31, 2023 and 2022, various members of the Board of Directors and their affiliated organizations, made contributions of approximately \$27,000 and \$29,000 to the Organization, respectively.

**NOTE 10 – 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, 2023</u>			<u>Year Ended December 31, 2022</u>		
	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>	<u>Revenue</u>	<u>Cost</u>	<u>Net</u>
Crafts/services	\$ 215,084	\$ 41,947	\$173,137	\$ 203,969	\$ 52,898	\$151,071
Thrift store sales	439,924	33,928	405,996	459,737	230,103	229,634
	655,008	75,875	579,133	663,706	283,001	380,705
Special events	939,877	121,066	818,811	944,637	246,275	698,362
Total	<u>\$1,594,885</u>	<u>\$196,941</u>	<u>\$1,397,944</u>	<u>\$1,608,343</u>	<u>\$529,276</u>	<u>\$1,079,067</u>

**ADULT AND TEEN CHALLENGE OF TEXAS**  
Notes to the Financial Statements - Continued  
December 31, 2023 and 2022

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

**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, 2023 and 2022.

**Commitments** - In November 2020, the FHLB awarded an Affordable Housing Program grant for \$700,000 for construction for the women’s unit at the Alvin, Texas location. This grant was drawn on as construction progressed. Construction began in 2021 and was completed in 2022.

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 was drawn on as construction progressed. At December 31, 2023 and 2022 \$850,000 and \$275,561 was recorded as a grant receivable, respectively. Construction began in 2022 and was completed in 2023.

In November 2023, the FHLB awarded an Affordable Housing Program grant for \$850,000 for construction of graduate housing at the San Antonio, Texas location. As of December 31, 2023, \$44,500 in developer fee has been incurred related to this grant.

**NOTE 12 – CONTRIBUTED NONFINANCIAL ASSETS**

For the years ended December 31, 2023 and 2022, contributed nonfinancial assets recognized within the statements of activities included:

	<b>2023</b>	<b>2022</b>
Auction donations	\$ 111,594	\$ 100,846
Rent	-	10,909
Total	\$ 111,594	\$ 111,755

Contributed nonfinancial assets did not have donor-imposed restrictions.

The Organization’s policy is to sell any contributed assets immediately upon receipt at auction or salvage unless the asset is restricted for use by the donor or is to be used in operations.

**NOTE 13 – EMPLOYEE RETENTION TAX CREDIT**

During the year ended December 31, 2023, the Organization received approximately \$465,000 through the federal government based on the employee retention tax credit program, a program to ease the burden of the pandemic.

**NOTE 14 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 26, 2024, the date the financial statements were available to be issued.