



Denton Assistance Center, Inc. and Affiliate

**Consolidated Financial Statements
with Supplementary Information
December 31, 2022 and 2021**

Denton Assistance Center, Inc. and Affiliate

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Independent Auditors' Report

To the Board of Directors of
Denton Assistance Center, Inc. and Affiliate

Opinion

We have audited the accompanying consolidated financial statements of Denton Assistance Center, Inc. and Affiliate (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Denton Assistance Center, Inc. and Affiliate as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Denton Assistance Center, Inc. and Affiliate 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Denton Assistance Center, Inc. and Affiliate's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated 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 consolidated 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 consolidated 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 Denton Assistance Center, Inc. and Affiliate'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Denton Assistance Center, Inc. and Affiliate's 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Sutton Frost Cary".

A Limited Liability Partnership

Arlington, Texas
March 20, 2023

Denton Assistance Center, Inc. and Affiliate
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash	\$ 566,967	\$ 336,806
Government grants receivable	248,957	216,684
Contributions receivable	119,003	219,624
Due from affiliate	7,921	-
Interest receivable	7,265	7,265
Prepaid expenses	17,331	18,332
Total current assets	967,444	798,711
Noncurrent assets:		
Restricted cash	182,485	240,295
Contributions receivable, net	109,166	187,027
Property and equipment, net	7,942,420	8,263,805
Notes receivable - new market tax credit	6,467,300	6,467,300
Total assets	\$ 15,668,815	\$ 15,957,138
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 90,293	\$ 54,996
Current portion of long-term debt	175,000	188,750
Total current liabilities	265,293	243,746
Noncurrent liabilities:		
Long-term debt - new market tax credit, net	9,051,606	8,963,014
Long-term debt, net	2,506,665	3,037,238
Total liabilities	11,823,564	12,243,998
Net assets:		
Without donor restrictions	3,704,109	3,599,012
With donor restrictions	141,142	114,128
Total net assets	3,845,251	3,713,140
Total liabilities and net assets	\$ 15,668,815	\$ 15,957,138

See notes to consolidated financial statements.

Denton Assistance Center, Inc. and Affiliate
Consolidated Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 231,417	\$ 405,297	\$ 636,714
Contributions of nonfinancial assets	2,485	51,266	53,751
Government grants and contracts	-	196,642	196,642
Special events (net of direct costs of \$126,130)	101,256	-	101,256
Program rental income	375,097	-	375,097
Other program income	90,368	-	90,368
Interest income	91,263	-	91,263
Net assets released from restrictions	626,191	(626,191)	-
Total support and revenue	1,518,077	27,014	1,545,091
Expenses:			
Program	996,322	-	996,322
Administrative	259,321	-	259,321
Fundraising	219,478	-	219,478
Total expenses	1,475,121	-	1,475,121
Change in net assets from operations	42,956	27,014	69,970
Nonoperating activity:			
Gain from disposal of property and equipment	62,141	-	62,141
Change in net assets	105,097	27,014	132,111
Net assets at beginning of year	3,599,012	114,128	3,713,140
Net assets at end of year	\$ 3,704,109	\$ 141,142	\$ 3,845,251

See notes to consolidated financial statements.

Denton Assistance Center, Inc. and Affiliate
Consolidated Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Contributions	\$ 220,638	\$ 204,372	\$ 425,010
Contributions of nonfinancial assets	8,948	-	8,948
Government grants and contracts	180,795	165,090	345,885
Special events (net of direct costs of \$8,916)	24,084	-	24,084
Program rental income	393,932	-	393,932
Other program income	38,565	-	38,565
Interest income	87,803	-	87,803
Net assets released from restrictions	793,741	(793,741)	-
Total support and revenue	1,748,506	(424,279)	1,324,227
Expenses:			
Program	980,591	-	980,591
Administrative	227,934	-	227,934
Fundraising	203,734	-	203,734
Total expenses	1,412,259	-	1,412,259
Bad debt loss	-	30,000	30,000
Total expenses and loss	1,412,259	30,000	1,442,259
Change in net assets	336,247	(454,279)	(118,032)
Net assets at beginning of year	3,262,765	568,407	3,831,172
Net assets at end of year	\$ 3,599,012	\$ 114,128	\$ 3,713,140

See notes to consolidated financial statements.

Denton Assistance Center, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Years Ended December 31, 2022

	Program	Administrative	Fundraising	Total
Advertising	\$ 20,121	\$ 3,773	\$ 1,257	\$ 25,151
Bank fees	-	83	6,939	7,022
Information technology	19,157	12,924	14,204	46,285
Depreciation	173,888	13,730	14,235	201,853
Insurance	26,142	6,341	3,559	36,042
Interest	334,075	18,119	18,119	370,313
Loan servicing and other fees	52,556	2,920	2,920	58,396
Miscellaneous	12,595	5,467	1,808	19,870
Payroll taxes	14,815	9,994	10,984	35,793
Postage and shipping	-	334	333	667
Professional fees	27,332	55,406	3,179	85,917
Equipment rent	1,850	1,248	1,372	4,470
Repairs and maintenance	81,323	4,518	4,518	90,359
Salaries and benefits	175,932	118,689	130,447	425,068
Supplies	28,918	4,241	4,070	37,229
Utilities	27,618	1,534	1,534	30,686
Total expense by function	\$ 996,322	\$ 259,321	\$ 219,478	\$ 1,475,121

See notes to consolidated financial statements.

Denton Assistance Center, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2021

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Advertising	\$ 2,391	\$ 649	\$ 5,195	\$ 8,235
Bank fees	-	3,435	3,435	6,870
Information technology	7,669	5,196	5,651	18,516
Depreciation	192,501	10,695	10,695	213,891
Insurance	28,485	6,504	4,307	39,296
Interest	354,786	19,710	19,710	394,206
Loan servicing and other fees	52,247	2,903	2,903	58,053
Miscellaneous	6,146	3,641	1,118	10,905
Payroll taxes	13,281	8,998	9,787	32,066
Postage and shipping	-	201	201	402
Professional fees	7,224	42,609	7,224	57,057
Equipment rent	1,792	1,214	1,321	4,327
Repairs and maintenance	95,883	5,327	5,327	106,537
Salaries and benefits	168,394	114,085	124,093	406,572
Supplies	21,124	1,174	1,174	23,472
Utilities	28,668	1,593	1,593	31,854
Total expense by function	<u>\$ 980,591</u>	<u>\$ 227,934</u>	<u>\$ 203,734</u>	<u>\$ 1,412,259</u>

See notes to consolidated financial statements.

Denton Assistance Center, Inc. and Affiliate
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 132,111	\$ (118,032)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	201,853	213,891
Amortization of debt issuance costs	99,470	96,904
Gain on disposal of property and equipment	(62,141)	-
Provision for bad debt	(3,102)	30,000
Change in discount on contributions receivable	(6,426)	-
Contributions restricted for capital	(90,996)	(151,944)
Changes in operating assets and liabilities:		
Government grants receivable	(32,273)	(216,684)
Prepaid expenses	1,001	5,172
Due from related party	(7,921)	-
Accounts payable and accrued expenses	35,297	(61,678)
Net cash provided (used) by operating activities	266,873	(202,371)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	190,900	-
Purchases of property and equipment	(384,979)	(144,475)
Net cash used by investing activities	(194,079)	(144,475)
Cash flows from financing activities:		
Collection of contributions restricted for capital	279,006	233,349
Payments on long-term debt	(179,449)	(431,146)
Net cash provided (used) by financing activities	99,557	(197,797)
Net increase (decrease) in cash and restricted cash	172,351	(544,643)
Cash and restricted cash at beginning of year	577,101	1,121,744
Cash and restricted cash at end of year	\$ 749,452	\$ 577,101
Reconciliation of cash and restricted cash reported within the statement of financial position to the statement of cash flows		
Cash	\$ 566,967	\$ 336,806
Restricted cash	182,485	240,295
Total cash and restricted cash shown in the statement of cash flows	\$ 749,452	\$ 577,101
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 277,270	\$ 213,820

Noncash investing and financing activities:

During the year ended December 31, 2022, the Organization paid off long-term debt with proceeds from the sale of property and equipment totaling \$375,752.

Denton Assistance Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

1. Organization

Denton Assistance Center, Inc. dba Serve Denton (Serve Denton) is a Texas nonprofit corporation that began operations in 2011. Serve Denton's mission is to partner with nonprofits to help make their services more accessible for people in need. Serve Denton accomplishes this mission by developing and managing shared spaces and services for other nonprofit organizations at below-market rates. These nonprofit organizations are able to offer health and human services at a central location.

Serve Denton Center, Inc. (SDC) is a Texas nonprofit corporation formed on April 30, 2018 to support and carry out the purposes of Serve Denton. SDC is a Qualified Active Low-Income Community Business (QALICB) and acts as the borrower for the New Market Tax Credit (NMTC) funding and holds title to Serve Denton's property.

The consolidated financial statements include the accounts of Serve Denton and SDC. All balances and transactions between the consolidated entities have been eliminated.

Serve Denton and SDC are collectively referred to herein as the Organization.

The Organization is supported primarily through lease revenue, donor contributions and corporate and government grants.

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor (or grantor) restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions - Net assets subject to donor- (or grantor-) imposed restrictions.

Denton Assistance Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of December 31, 2022 and 2021, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor restrictions on contributions of property and equipment or contributions restricted for the purchase or construction of property expire when the assets are placed in service.

Credit and Market Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash, contributions and government grants receivable. The Organization places cash, which at times may exceed the federally insured limits, with high credit quality financial institutions to minimize risk. As of December 31, 2022, the Organization had underinsured balances totaling \$213,227.

Unconditional promises to give (contributions receivable) are unsecured and are due from various donors. Government grants receivable are unsecured and due from various government agencies. Management provides for estimated uncollectible amounts through a provision for bad debt expense. Management determines the allowance based on their judgment including such factors as prior collection history, type of contribution, past due amounts and a review of subsequent collections. Balances that are outstanding after management has used reasonable collection efforts are written off.

At December 31, 2022 and 2021, approximately 40% and 37% of contributions receivable was due from one and two donors, respectively.

At December 31, 2022, approximately 97% of government grants receivable was due from two government agencies. At December 31, 2021, approximately 83% of government grants receivable was due from one government agency.

Denton Assistance Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

Restricted Cash

Restricted cash represents funds required to be held in separate bank accounts and used for NMTC debt service.

Contributions Receivable

Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk adjusted interest rate applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

Property and Equipment

Property and equipment purchased by the Organization are recorded at cost or if acquired by gift, at fair market value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000; the fair value of donated property and equipment is similarly capitalized. Property and equipment are depreciated using the straight-line method over estimated useful lives of the assets, which range from 5 to 40 years.

Impairment of Long Lived Assets

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment included current operating results, trends and prospects and the effects of obsolescence, demand completion and other economic factors. There were no indications of asset impairment during the year ended December 31, 2022 and 2021.

Debt Issuance Costs

The Organization amortizes the costs of obtaining long-term financing over the average period the related debt will be outstanding. Debt issuance costs are included in long-term debt in the accompanying consolidated statements of financial position. Amortization expense is included in interest expense in the accompanying consolidated statements of functional expenses.

Denton Assistance Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

Revenue Recognition

Contributions are recognized when cash, other assets, an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Organization records special event revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference. Lessor revenue is recognized when earned.

A portion of the Organization's revenue is derived from cost-reimbursable government grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. The Organization was awarded cost reimbursable grants that have not been recognized in the consolidated financial statements because qualifying expenditures have not yet been incurred totaling \$210,774 at December 31, 2022. The Organization's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or changes in net assets of the Organization.

Donated goods, services and facilities are reflected as contributions at their estimated fair values at date of receipt. The Organization recognizes contribution revenue for certain services received at the fair value of those services, provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Advertising

Advertising costs are expensed as incurred. Advertising costs totaled \$25,151 and \$8,235 for the years ended December 31, 2022 and 2021, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present expenses by function and natural classification. Certain costs are charged directly to the functions they benefit. Other expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, supplies, technology, interest and depreciation, which are allocated on a square footage basis, as well as compensation, which are allocated on the basis of time and effort.

Denton Assistance Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

Income Taxes

Serve Denton and SDC are exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC) and are not classified as private foundations as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purpose are subject to tax under IRC Section 511. The Organization had no unrelated business income for the years ended December 31, 2022 and 2021. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax returns and recognition of 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 the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2022 and 2021, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements.

Estimates and Assumptions

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Accounting Pronouncements Adopted

The Organization adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU 2020-07). ASU 2020-07 increases transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancement to presentation and disclosure. The amendments in ASU 2020-07 address stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFP's, as well as the amount of those contributions used in an NFP's programs and other activities. The Organization has adopted this ASU on the retrospective basis as of and for the year ended December 31, 2022.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes in-kind contributions, and therefore, no changes were required to net assets as of January 1, 2021. The presentation and disclosures of gifts in-kind have been enhanced in accordance with the standard.

Denton Assistance Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

Reclassification

Certain reclassifications have been made to the December 31, 2021 consolidated financial statements to be consistent with the December 31, 2022 presentation.

3. Contributions Receivable

Contributions receivable are estimated to be collected as follows at December 31:

	<u>2022</u>	<u>2021</u>
Contributions receivable in less than one year	\$ 119,003	\$ 219,624
Contributions receivable in one to five years	<u>165,118</u>	<u>252,507</u>
	284,121	472,131
Less discount to net present value at 6.25%	(6,304)	(12,730)
Less allowance for uncollectible contributions	<u>(49,648)</u>	<u>(52,750)</u>
	<u>\$ 228,169</u>	<u>\$ 406,651</u>

4. Due from Related Party

During the year ended December 31, 2022, the Organization paid organization and operational expenses totaling \$193,758 to a related party. The related party reimbursed the Organization for these expenses during the year ended December 31, 2022. The Organization had a receivable balance from this related party of \$7,921 at December 31, 2022.

5. New Market Tax Credit Transaction

In connection with the Organization's effort to expand their facilities and services, the Organization obtained financing utilizing the federal NMTC program during 2018. The NMTC program was designed to stimulate investment and economic growth in low income communities by offering taxpayers a tax credit against federal income taxes over a seven year period for Qualified Equity Investments (QEIs) in designated Community Development Entities (CDEs). CDEs receive NMTC allocations pursuant to Section 45D of the Internal Revenue Code. These designated CDEs must use substantially all of the proceeds to make Qualified Low Income Community Investments (QLICIs). To earn the tax credit, the QEI must remain invested in the CDE for a seven year period. Also, the entity receiving the loans needs to be treated as a Qualified Active Low Income Community Business (QALICB) for the duration of the seven year period and meet the requirements as outlined in Treasury Regulation Section 1.45D 1(d)(4)(i).

Denton Assistance Center, Inc. and Affiliate
Notes to Consolidated Financial Statements

In connection with the NMTC transaction, U.S. Bancorp Community Development Corporation (NMTC Investor) made an equity investment in Twain Investment Fund 350, LLC (Investment Fund) of \$3,038,100. Serve Denton borrowed \$795,000 (Bridge Loan) and \$2,875,000 (Source Loan) as well as received significant contributions from other partnering non-profits and a financial institution and loaned \$6,467,300 to the Investment Fund (See Note 5). The Investment Fund then made a Qualified Equity Investment totaling \$9,500,000 in Impact CDE 69, LLC (CDE). The CDE then utilized the QEI to make Qualified Low Income Community Investment loans of \$6,467,300 (Loan A) and \$2,842,700 (Loan B) to SDC (See Note 7). SDC then used the loan funds for the acquisition of real property and buildings and other improvements by Serve Denton for \$4,074,797 as part of a reimbursement agreement. SDC, the QALICB, will lease the real property, building and improvements as a part of the lease agreement with Serve Denton, which began in March of 2019.

Serve Denton granted to the NMTC investors, the right and option but not the obligation to require Serve Denton to purchase all of the investor’s interest in the Investment Fund (Put) at the end of the NMTC compliance period for \$1,000 plus additional transfer and closing costs and any additional amounts not previously reimbursed to the investors. In the event that the investor has not exercised the Put, Serve Denton has the right and option (Call) to purchase all of the investor’s interest in the Investment Fund at the greater of fair market value or the Put price. No amounts have been recorded in the accompanying consolidated financial statements related to these put and call options.

6. Note Receivable - New Market Tax Credit

In connection with the NMTC transaction, DAC advanced \$6,467,300 to the Investment Fund and was issued a note receivable. The note accrues interest at 1.348%. Payments of interest only are required quarterly through December 2025. Beginning March 2026, quarterly payments of principal and interest are due until maturity in December 2048, when all outstanding amounts become due. The note is secured by the first priority security interest in the Investment Fund’s equity interest in the CDE.

Maturity of the note receivable is as follows for the years ending December 31:

2023	\$	-
2024		-
2025		-
2026		199,985
2027		202,695
Thereafter		6,064,620
		6,064,620
		\$ 6,467,300

Denton Assistance Center, Inc. and Affiliate
Notes to Consolidated Financial Statements

7. Property and Equipment

Property and equipment consist of the following at December 31:

	2022	2021
Land	\$ 1,276,541	\$ 1,464,929
Buildings and improvements	7,240,466	7,355,974
Furniture and equipment	160,363	209,995
	8,677,370	9,030,898
Less: accumulated depreciation	(734,950)	(767,095)
	\$ 7,942,420	\$ 8,263,803

Depreciation expense totaled \$201,853 and \$213,891 for the years ended December 31, 2022 and 2021, respectively.

8. Long-term Debt

New Market Tax Credit Financing

In connection with the NMTC transaction, Serve Denton entered into two long-term notes payable, the Bridge Loan and Source Loan. The Bridge Loan is payable to Capital Impact Partners, in the original amount of \$795,000, at an interest rate of 6.50%, with quarterly interest only payments beginning March 2019 and the entire principal balance due on December 2021, secured by all of the assets of Serve Denton. The Bridge Loan was paid in full as of December 31, 2021. The Source Loan is payable to Capital Impact Partners, in the original amount of \$2,875,000, at an interest rate of 6.25%, with quarterly interest only payments beginning March 2019 and the entire principal balance due on June 2026, secured by all of the assets of Serve Denton. At December 31, 2022, the balance outstanding for the Source Loan, net of debt issuance costs of \$18,335, totaled \$2,681,665. At December 31, 2021, the balance outstanding for the Source Loan, net of debt issuance costs of \$23,616, totaled \$2,851,384.

Additionally, in connection with the NMTC transaction, SDC entered into the Loan and Security Agreement (Loan Agreement) with the CDE consisting of total borrowings of \$9,310,000. The commitment is evidenced by two promissory notes, the QLICI Loan A and QLICI Loan B. QLICI Loan A's promissory note is in the amount of \$6,467,300, at an interest rate of 1%, with interest only payments due each quarter beginning March 2019 through December 2025. Principal and interest payments commence on March 2026 in the amount of \$68,404 and are paid quarterly through the maturity date of December 2052. QLICI Loan B's promissory note is in the amount of \$2,842,700, at an interest rate of 1%, with interest only payments due each quarter beginning March 2019 through December 2025. Principal and interest payments commence on March 2026 in the amount of \$30,067 and are paid quarterly through the maturity date of December 2052.

Denton Assistance Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

The QLICI loans are secured by all of SDC's assets as well as any additional contracts, leases, rental agreements and additional items as defined in the Loan Agreement. The Loan Agreement contains representations and warranties, and covenants customary for financings of this type including, but not limited to, limitations on additional asset sales, maintenance of reserve bank accounts, leases and financial covenants. The financial covenants require the Organization to maintain the following specific ratios: SDC debt coverage ratio (not less than 1.01:1); DAC lease and required debt coverage ratio (not less than 1.20:1), DAC full lease and debt coverage ratio (not less than 1:1) and DAC days cash on hand of not less than 30 days. The Organization obtained a waiver from the lender because one of the financial covenants was not met at December 31, 2022 and 2021. At December 31, 2022, the balance outstanding for the QLICI loans, net of debt issuance costs of \$258,394, totaled \$9,051,606. At December 31, 2021, the balance outstanding for the QLICI loans, net of debt issuance costs of \$346,986, totaled \$8,963,014.

Note Payable

On January 26, 2018, Serve Denton entered into a \$500,000 note payable to a bank. The note is secured by the Wheeler House building and improvements, carries an interest rate of 4.25%, subject to change in 2025 and adjusted annually to the Prime Rate. The unpaid principal balance and interest are due and payable in equal monthly installments until the maturity date of June, 2040. At December 31, 2021, the balance outstanding for the Wheeler House loan, net of debt issuance costs of \$5,597, totaled \$374,604. On May 12, 2022, Serve Denton sold the Wheeler House building and land. Serve Denton utilized the proceeds to pay the loan in its entirety.

Future maturities of long-term debt are as follows for the years ended December 31:

2023		\$ 175,000
2024		175,000
2025		175,000
2026		470,414
2027		568,885
Thereafter		<u>10,445,701</u>
Long-term debt		12,010,000
Less issuance debt costs		<u>(276,729)</u>
Total		<u><u>\$ 11,733,271</u></u>

Denton Assistance Center, Inc. and Affiliate
Notes to Consolidated Financial Statements

9. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of amounts restricted by donors for the following purposes at December 31:

	<u>2022</u>	<u>2021</u>
Capital	\$ 5,180	\$ 83,166
Shared services	-	20,000
HVAC	125,000	-
Other	<u>10,962</u>	<u>10,962</u>
	<u>\$ 141,142</u>	<u>\$ 114,128</u>

10. Net Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors during the years then ended December 31, 2022 and 2021. Net assets released were as follows:

	<u>2022</u>	<u>2021</u>
Capital	\$ 350,408	\$ 704,641
Payroll	-	89,100
Shared services	20,000	-
Expansion	196,642	-
Steel	51,266	-
Other	<u>7,875</u>	<u>-</u>
	<u>\$ 626,191</u>	<u>\$ 793,741</u>

Denton Assistance Center, Inc. and Affiliate
Notes to Consolidated Financial Statements

11. Program Rent Income

The Organization offers shared space to various nonprofits through short and long term leases in their facilities at below market rates. Future minimum rental income to be received on noncancelable leases are as follows for the years ended December 31:

2023	\$ 380,676
2024	271,593
2025	279,741
2026	281,936
2027	271,632
Thereafter	<u>469,603</u>
Total	<u>\$ 1,955,181</u>

Rent income for the years ended December 31, 2022 and 2021 totaled \$375,097 and \$393,932, respectively.

12. Coronavirus Aid, Relief, and Economic Security Act and Other Coronavirus Events

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic and recommended containment and mitigation measures worldwide. The coronavirus outbreak has caused business disruption through mandated closings of non-essential businesses and severely restricted the level of economic activity around the world. The Organization adjusted operational plans to protect the employees and individuals served while still meeting client needs for essential services. The Organization continues to closely monitor the impact of COVID-19 on all aspects of the business. Given the uncertainty of the spread and duration of the coronavirus, the related financial impact to the Organization, if any, cannot be determined at this time.

Paycheck Protection Program Loan

On January 27, 2021, the Organization received loan proceeds in the amount of \$89,100 under the second reiteration of the Paycheck Protection Program (PPP). The PPP loan and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities and maintains certain payroll levels.

Denton Assistance Center, Inc. and Affiliate

Notes to Consolidated Financial Statements

In accordance with ASU 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, the Organization has recognized the loan forgiveness of \$89,100 in government grant revenue for the year ended December 31, 2021 as the conditions of release were substantially met. In August 2021, the Organization was notified that the PPP loan was forgiven. The amount is included as government grant income in the accompanying consolidated statement of activities for the year ended December 31, 2021.

Employee Retention Credit

The Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted December 27, 2020, amended and extended the Employee Retention Credit (ERC) of the Coronavirus Aid, Relief, and Economic Security Act. The ERC is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before September 30, 2021. Employers are eligible for the credit if they met certain criteria that include either a full or partial suspension of operations during any calendar quarter of 2020 and calendar quarters in 2021 through September 30, due to government orders or a significant decline on gross receipts. The Organization has determined it is eligible for 2021 ERC in the amount of \$180,795. This amount is included in government grant income on the consolidated statement of activities for the year ended December 31, 2021. The ERC is included in government grants receivable in the amount of \$117,408 and \$180,795 in the accompanying consolidated statements of financial position for the years ended December 31, 2022 and 2021, respectively.

13. Contributed Nonfinancial Assets

The Organization received contributions of nonfinancial assets of goods and services totaling \$51,296 and \$2,455 for the year ended December 31, 2022, respectively. The amounts were allocated to program and administrative services. Contributions of nonfinancial assets of goods totaling \$51,266 were restricted by the donor for property and equipment additions.

The Organization received contributions of nonfinancial assets of goods and services totaling \$5,763 and \$3,185 for the year ended December 31, 2021, respectively. The amounts were fully allocated to program services. Contributions of nonfinancial assets of goods totaling \$5,763 were restricted by the donor for property and equipment additions.

Goods

Goods are valued based on the amounts that would have been paid if not donated.

Services

Contributed services are valued on the price the donor would have charged if not donated.

Denton Assistance Center, Inc. and Affiliate
Notes to Consolidated Financial Statements

14. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the consolidated statements of financial position date for general expenditure are as follows at December 31:

	<u>2022</u>	<u>2021</u>
Cash and restricted cash	\$ 749,452	\$ 577,101
Government grants receivable	248,957	216,684
Contributions receivable, net	228,169	406,651
Other receivables	<u>7,265</u>	<u>7,265</u>
Total financial assets	1,233,843	1,207,701
Less amounts not available for general expenditures within one year:		
Restricted cash NMTC agreements	182,485	240,295
Contributions receivable - due after one year, net	109,166	187,027
Restricted donor for HVAC	<u>125,000</u>	<u>-</u>
Financial assets not available for general expenditures	<u>416,651</u>	<u>427,322</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 817,192</u>	<u>\$ 780,379</u>

The Organization considers donor restricted funds that are designated for programs ongoing and central to the Organization's mission to be available for general expenditure.

15. Subsequent Events

The Organization evaluated subsequent events after the consolidated statement of financial position date of December 31, 2022 through the date the consolidated financial statements were available to be issued and concluded that no additional disclosures are required.

Supplementary Information

Denton Assistance Center, Inc. and Affiliate
Consolidating Statement of Financial Position
December 31, 2022

	Denton Assistance Center, Inc.	Serve Denton Center, Inc.	Eliminations	Consolidated Total
Assets				
Current assets:				
Cash	\$ 500,641	\$ 66,326	\$ -	\$ 566,967
Government grants receivable	248,957	-	-	248,957
Contributions receivable	119,003	-	-	119,003
Due from affiliate	136,007	-	(128,086)	7,921
Interest receivable	7,265	-	-	7,265
Prepaid expenses	17,331	-	-	17,331
Total current assets	1,029,204	66,326	(128,086)	967,444
Noncurrent assets:				
Restricted cash	-	182,485	-	182,485
Contributions receivable, net	109,166	-	-	109,166
Property and equipment, net	64,568	7,877,852	-	7,942,420
Note receivable - new market tax credit	6,467,300	-	-	6,467,300
Total assets	\$ 7,670,238	\$ 8,126,663	\$ (128,086)	\$ 15,668,815
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 77,671	\$ 12,622	\$ -	\$ 90,293
Current portion of long-term debt	175,000	-	-	175,000
Total current liabilities	252,671	12,622	-	265,293
Noncurrent liabilities:				
Due to affiliate	-	128,086	(128,086)	-
Long-term debt - new market tax credit, net	-	9,051,606	-	9,051,606
Long-term debt, net	2,506,665	-	-	2,506,665
Total liabilities	2,759,336	9,192,314	(128,086)	11,823,564
Net assets:				
Net assets (deficit) without donor restrictions	4,769,760	(1,065,651)	-	3,704,109
Net assets with donor restrictions	141,142	-	-	141,142
Total net assets (deficit)	4,910,902	(1,065,651)	-	3,845,251
Total liabilities and net assets (deficit)	\$ 7,670,238	\$ 8,126,663	\$ (128,086)	\$ 15,668,815

Denton Assistance Center, Inc. and Affiliate
Consolidating Statement of Activities
Year Ended December 31, 2022

	Denton Assistance Center, Inc.			Serve Denton Center, Inc.			Eliminations	Consolidated Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
Revenue and support:								
Contributions	\$ 231,417	\$ 405,297	\$ 636,714	\$ -	\$ -	\$ -	\$ -	\$ 636,714
Contributions of nonfinancial assets	2,485	51,266	53,751	-	-	-	-	53,751
Government grants and contracts	-	196,642	196,642	-	-	-	-	196,642
Special events (net of direct costs of \$126,130)	101,256	-	101,256	-	-	-	-	101,256
Program rental income	375,097	-	375,097	110,000	-	110,000	(110,000)	375,097
Other program income	90,368	-	90,368	-	-	-	-	90,368
Interest income	90,670	-	90,670	593	-	593	-	91,263
Net assets released from restrictions	626,191	(626,191)	-	-	-	-	-	-
Total revenue and support	1,517,484	27,014	1,544,498	110,593	-	110,593	(110,000)	1,545,091
Operating expenses:								
Program	741,053	-	741,053	365,269	-	365,269	(110,000)	996,322
Administrative	235,762	-	235,762	23,559	-	23,559	-	259,321
Fundraising	195,487	-	195,487	23,991	-	23,991	-	219,478
Total expenses	1,172,302	-	1,172,302	412,819	-	412,819	(110,000)	1,475,121
Change in net assets from operations	345,182	27,014	372,196	(302,226)	-	(302,226)	-	69,970
Non-operating activity:								
Gain from disposal of property and equipment	62,141	-	62,141	-	-	-	-	62,141
Change in net assets	407,323	27,014	434,337	(302,226)	-	(302,226)	-	132,111
Net assets (deficit) at beginning of year	4,362,437	114,128	4,476,565	(763,425)	-	(763,425)	-	3,713,140
Net assets (deficit) at end of year	\$4,769,760	\$ 141,142	\$4,910,902	\$ (1,065,651)	\$ -	\$ (1,065,651)	\$ -	\$3,845,251