

SOUTH BAY TEEN CHALLENGE
(A Nonprofit Corporation)

FINANCIAL STATEMENTS
Together with
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2022

Tang & Lee, LLP

Certified Public Accountants

SOUTH BAY TEEN CHALLENGE
(A Nonprofit Corporation)
FOR THE YEAR ENDED DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Teen Challenge
South Bay Teen Challenge
Santa Clara, California

Opinion

We have audited the accompanying financial statements of **South Bay Teen Challenge (TCSB)** (the Organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in its net assets, and cash flows for the year 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 TCSB as of December 31, 2022, the statement of activities and changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 TCSB and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 TCSB's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility

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 generally accepted auditing standards 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 generally accepted auditing standards, 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 TCSB'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 TCSB'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.

Report on Summarized Comparative Information

We have previously audited TCSB's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Tang & Lee, LLP

Burlingame, California
November 10, 2023

SOUTH BAY TEEN CHALLENGE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
(With Comparative Totals for December 31, 2021)

ASSETS	Without donor restrictions	With donor restrictions	Total 2022	Summarized 2021
CURRENT ASSETS:				
Cash and cash equivalents	\$ 2,509,537	\$ 14,396	\$ 2,523,933	\$ 2,335,367
Certificate of deposit	205,887	-	205,887	204,273
Accounts receivable - related parties	603,776	-	603,776	587,930
Prepaid expenses and deposits	32,310	-	32,310	16,292
Total current assets	<u>3,351,510</u>	<u>14,396</u>	<u>3,365,906</u>	<u>3,143,862</u>
PROPERTY AND EQUIPMENT:				
Land	375,759	-	375,759	375,759
Buildings and improvements	2,036,318	-	2,036,318	1,959,086
Furniture and equipment	220,462	-	220,462	203,311
Vehicles	302,230	-	302,230	268,390
	<u>2,934,769</u>	<u>-</u>	<u>2,934,769</u>	<u>2,806,546</u>
Less accumulated depreciation	<u>(2,002,849)</u>	<u>-</u>	<u>(2,002,849)</u>	<u>(1,898,313)</u>
	931,920	-	931,920	908,233
Construction in progress	23,947	-	23,947	94,763
Total property and equipment	<u>955,867</u>	<u>-</u>	<u>955,867</u>	<u>1,002,996</u>
RIGHT-OF-USE ASSETS:				
Right-of-use asset-copiers	68,050	-	68,050	-
Right-of-use asset-building	389,918	-	389,918	-
Total right-of-use assets	<u>457,968</u>	<u>-</u>	<u>457,968</u>	<u>-</u>
OTHER ASSETS:				
Notes receivable - related parties	698,746	-	698,746	580,420
Mortgage loan fees	-	-	-	444
Cash restricted-other asset investment	-	40,058	40,058	40,058
Investment	369,644	-	369,644	457,239
Deposits - long term	15,602	-	15,602	15,602
Total other assets	<u>1,083,992</u>	<u>40,058</u>	<u>1,124,050</u>	<u>1,093,763</u>
Total assets	<u>\$ 5,849,337</u>	<u>\$ 54,454</u>	<u>\$ 5,903,791</u>	<u>\$ 5,240,621</u>

The accompanying notes are an integral part of the financial statements.

SOUTH BAY TEEN CHALLENGE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
(Continued)
(With Comparative Totals for December 31, 2021)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total 2022</u>	<u>Summarized 2021</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 18,921	\$ -	\$ 18,921	\$ 37,839
Accrued expenses	24,550	-	24,550	14,160
Other payables	75,677	-	75,677	69,577
Lease liabilities - current portion	107,538	-	107,538	-
Total current liabilities	226,686	-	226,686	121,576
LONG-TERM LIABILITIES:				
Lease liabilities	350,430	-	350,430	-
Total long-term liabilities	350,430	-	350,430	-
Total liabilities	577,116	-	577,116	121,576
COMMITMENTS AND CONTINGENCIES				
NET ASSETS:				
With donor restrictions	-	54,454	54,454	187,229
Without donor restrictions	5,272,221	-	5,272,221	4,931,816
Total net assets	5,272,221	54,454	5,326,675	5,119,045
Total liabilities and net assets	<u>\$ 5,849,337</u>	<u>\$ 54,454</u>	<u>\$ 5,903,791</u>	<u>\$ 5,240,621</u>

The accompanying notes are an integral part of the financial statements.

SOUTH BAY TEEN CHALLENGE
STATEMENT OF ACTIVITIES AND CHANGES IN ITS NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Comparative Totals for December 31, 2021)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total 2022</u>	<u>Summarized 2021</u>
SUPPORT AND REVENUE:				
General contributions	\$ 1,298,773	\$ -	\$ 1,298,773	\$ 1,573,317
Non-cash donations	185,350	-	185,350	149,985
Special events contributions	66,865	-	66,865	145,266
Special events direct benefits cost	(22,690)	-	(22,690)	(1,618)
Net assets released from restrictions	132,775	(132,775)	-	-
Total support	<u>1,661,073</u>	<u>(132,775)</u>	<u>1,528,298</u>	<u>1,866,950</u>
Interest income and miscellaneous income	43,783	-	43,783	30,827
Program fees	360,167	-	360,167	248,881
Sale of assets and donated items	153,085	-	153,085	200,577
Total revenue	<u>557,035</u>	<u>-</u>	<u>557,035</u>	<u>480,285</u>
Total support and revenue	<u>2,218,108</u>	<u>(132,775)</u>	<u>2,085,333</u>	<u>2,347,235</u>
EXPENSES:				
Program services	1,421,080	-	1,421,080	1,360,227
Supporting services -				
General and administrative	233,192	-	233,192	89,825
Fundraising	163,482	-	163,482	79,371
Total supporting services	<u>396,674</u>	<u>-</u>	<u>396,674</u>	<u>169,196</u>
Total expenses	<u>1,817,754</u>	<u>-</u>	<u>1,817,754</u>	<u>1,529,423</u>
Changes(increase/(decrease) in net assets before nonoperating activities	400,354	(132,775)	267,579	817,812
NON-OPERATING ACTIVITIES				
Net unrealized gain or (loss) on investments	(68,693)	-	(68,693)	5,443
	<u>(68,693)</u>	<u>-</u>	<u>(68,693)</u>	<u>5,443</u>
Changes in net assets- increase/(decrease)	331,661	(132,775)	198,886	823,255
NET ASSETS, beginning of year	4,931,816	187,229	5,119,045	4,320,624
Prior period adjustment	8,744	-	8,744	(24,834)
Restated net assets, beginning of year	4,940,560	187,229	5,127,789	4,295,790
NET ASSETS, end of year	<u>\$ 5,272,221</u>	<u>\$ 54,454</u>	<u>\$ 5,326,675</u>	<u>\$ 5,119,045</u>

The accompanying notes are an integral part of the financial statements.

**SOUTH BAY TEEN CHALLENGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(With Comparative Totals for December 31, 2021)**

	<u>Total 2022</u>	<u>Summarized 2021</u>
Cash flows from operating activities:		
Increase (Decrease) in net assets	\$ 198,886	\$ 823,255
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	110,603	103,460
Unrealized loss (gain) on investments	68,693	(5,443)
Changes (increase)/decrease in assets and liabilities:		
Certificate of deposits	(1,614)	(1,243)
Accounts receivable	(15,846)	109,109
Prepaid expenses and deposits	(16,018)	(667)
Mortgage loan fee	444	252
Investments income to be reinvested	18,902	(33,431)
Deposit-long term	-	(5,600)
Right-of-use assets	(457,968)	-
Accounts payables and accrued expenses	(8,528)	(12)
Insurance and other payables	6,100	32,161
Lease liabilities	457,968	-
Prior period adjustments	8,744	(24,834)
	<hr/>	<hr/>
Net cash flows provided by operating activities	370,366	997,007
Cash flows for investing activities:		
Notes receivable - start-up	(118,326)	14,160
Acquisition of property and equipment	(139,722)	(77,980)
Construction in progress	70,816	(17,798)
Disposal of property and equipment	5,432	12,509
	<hr/>	<hr/>
Net cash flows used by investing activities	(181,800)	(69,109)
Cash flows for financing activities:		
Tax exempt income-PPP loan forgiven	-	(121,433)
(Debt reduction)/increase on long-term debt	-	(79,342)
	<hr/>	<hr/>
Net cash flows used in financing activities	-	(200,775)
Net increase in cash	188,566	727,123
Cash, beginning of year	<hr/>	<hr/>
	2,335,367	1,608,244
Cash, end of year	<hr/> <hr/>	<hr/> <hr/>
	2,523,933	2,335,367
Supplementary information:		
Interest paid during the year	\$ -	\$ 3,849

The accompanying notes are an integral part of the financial statements.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements
December 31, 2022

NOTE 1 Nature of Organization

David Wilkerson started Teen Challenge in 1958 as a home to help drug addicts and gang members in New York City grow stronger in their relationship with God. Teen Challenge has expanded to more than 240 centers throughout the United States and over 1,200 centers in other countries since then.

Teen Challenge San Jose (South Bay) started in 1971. The South Bay programs offer a variety of program opportunities to the community, including:

- (1) evangelism and outreach ministry centering on street meetings, jail and prison services, hotlines, substance abuse prevention, counseling and literature distribution,
- (2) crisis intervention and referral programs, which provide a short-term place to stay for individuals with life-controlling problems,
- (3) intermediate-range programs focusing on Bible study and character development,
- (4) long-term residential programs designed to provide both spiritual development and vocational training, and
- (5) re-entry programs to assist individuals in the process of reintegration into society, employment, and Christian fellowship.

South Bay Teen Challenge (TCSB) owns facilities in the Asbury and Alum Rock areas of San Jose, California

Participants in the long-term residential programs of Teen Challenge are provided training and development opportunities designed to enhance both their spiritual lives and their employment opportunities. Participants in the program have been pre-qualified and selected for the program based upon their readiness and ability to make some significant life changes.

TCSB is a California non-profit corporation that was incorporated in California under their official name of "South Bay Teen Challenge".

On December 10, 2002, the Organization opened a thrift store ministry in the nearby San Jose area. It uses this ministry to prepare the participant student for reintegration into society. In addition, it exposes the works of Teen Challenge to a larger community.

On May 2, 2005, the Board of Organization ratified the merger of Streams of Living Water Foundation (SLW) into the Organization. The process of obtaining SLW operation was completed on October 16, 2007. In addition, the Redwood Centers of Men's and Women's became part of this group in 2006.

On July 15, 2011, the management decided to move its administrative office and thrift store to the Cities of Santa Clara and San Jose in order to reduce operating expenses.

On August 1, 2011, the Board approved the management to discontinue the association with Redwood Center. The Center has benefited from this relationship in past years.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

NOTE 2 Summary of Significant Accounting Policies

a. **Accounting Principles Updates**

- 1) In 2019, The Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards (SAS) No. 134, Auditor Reporting and Amendments, which includes amendments to address disclosures in the Audit of Financial Statements. The new standard makes fundamental changes in the layout of the audit report as well as the information required to be presented in all auditor reports issued under generally accepted auditing standards (GAAS). The standard is effective for the reporting periods ending on or after December 15, 2020. However, in May 2020, AICPA issued SAS No. 141 to amend the effective date of No. 134. The SAS becomes effective for audits of financial statements for periods ending on or after December 15, 2021.

- 2) In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) was issued to replace the leases requirements in Topic 840, Leases. The main difference between the previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under the previous GAAP. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. Topic 842 will be effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods and is to be retrospectively applied. For private company and non-profit entities, the amendments in this update are effective for the fiscal years beginning after December 15, 2021.

b. **Basis of Presentation**

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with FASB ASC 958-605-20, *Accounting for Contributions Received and Contributions Made*, and FASB ASC 958, *Financial Statements of Not-For-Profit Organizations*. The financial statements report separately classifies amounts of net assets:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of TCSB. These net assets may be used at the discretion of TCSB's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

of TCSB or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

c. **Revenue Recognition**

1) Contributions

Contributions are recognized when cash or other assets are received or promises to give are made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the pending conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are received. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending upon the nature of the restrictions. When a restriction expires, net assets with donor restrictions are released and reclassified as net assets without donor restrictions.

TCSB believes that motivation for giving results is when God moves the hearts of individuals. Therefore, it views any faith promises received as an expression of a desire to give based on God's future provision. Therefore, faith promises received by TCSB are recognized as neither contributions nor conditional promises in the financial statements, since all conditions rest with the donor, and the donor reserves the right to modify the promise.

2) Program fees

TCSB meets the criteria in revenue recognition under ASC 606 - Revenue from contracts with customers. Generally accepted accounting principles (GAAP) require that revenues are recognized according to the revenue recognition principles, a feature of accrued accounting. This means that revenue is recognized on the income statement in the period when realized and earned not necessarily when cash is received. TCSB has contracts with customers for services provided by students over a performance period. Contracts narrate performance obligations, service price, and allocation of service price to performance obligations over the performance period. TCSB recognizes program fee revenue for services provided by students when the service specified by the customer is performed and satisfied.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

3) Sales of assets and donated items

TCSB meets the criteria in revenue recognition under ASC 606 - Revenue from contracts with customers. Generally accepted accounting principles (GAAP) require that revenues are recognized according to the revenue recognition principles, a feature of accrued accounting. This means that revenue is recognized on the income statement in the period when realized and earned not necessarily when cash is received. TCSB has contracts with customers for inventory and donated items sales over a performance period. Contracts narrate performance obligations, service price, and allocation of service price to performance obligations over the performance period. TCSB recognizes inventory and donated items sales revenue when inventory sale is performed and satisfied and inventory is delivered to customers.

4) Interest income and miscellaneous income

Interest income and miscellaneous income consist primarily of interest income from notes receivable and dividend income from investments.

d. **Property and Equipment**

Land, buildings, and equipment valued at \$500 or more are capitalized and recorded at cost purchased or at fair market value at the date of giving(donation).

Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

	<u>Life in Years</u>
Buildings and improvements	20 to 40
Furniture and equipment	7
Vehicles	5

e. **Non-cash Donations**

Non-cash donations are recorded at their fair market value at the date of giving or serving.

f. **Cash and Cash Equivalents Definition**

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term. Highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

g. **Use of Volunteers**

A large number of people have contributed a significant amount of time to the activities of TCSB. The financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria of FASB ASC 958. If these activities could be valued in the accompanying financial statements, their inclusion would significantly increase the percentage of expenses attributable to direct program expenditures.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

h. Use of Estimates in the Preparation of Financial Statements

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

i. Income Taxes Status

TCSB is exempt from federal income taxes under Sections 501(c)(3) of the Internal Revenue Code (IRC) and state income taxes under 2370d of the California Revenue and Taxation Code, respectively. Furthermore, TCSB is not classified as a private foundation.

The Financial Accounting Standards Board (FASB) FASB Interpretation No.48, *Accounting for Uncertainty in Income Taxes*, (Fin 48) which was subsequently included in the FASB Codification as ASC 740, prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management of TCSB has evaluated its uncertain tax positions and related income tax contingencies. Management does not believe that any material uncertain tax positions exist. TCSB's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and a period of four for California taxing authorities.

j. Functional Allocation of Expenses

The costs of providing the combined various programs and other activities have been summarized in the Statement of Functional Expenses. Expenses that can be identified with a specific program or support service are charged directly to their natural expenditure classification. Certain costs common to several functions have been allocated among the programs and supporting services benefited. General administrative and fundraising expenses are those not directly identifiable with any specific function but provide for the overall support and direction of TCSB.

k. Investments

Investments are comprised of a series of private bonds and donated equity securities. TCSB reports investments at fair value. Unrealized gains and losses are included in the statement of activities.

l. Fair Value of Financial Instruments

TCSB's financial instruments include cash and cash equivalents, receivables, investments, prepaid, deposits, accounts payables, and notes payables. The carrying amount of these items approximates fair value because of the nature and short maturity of these instruments.

m. Comparative Financial Information

The financial statements are presented with prior year summarized comparative totals which do not include details by net asset classification. Such information does not include sufficient details to constitute a presentation in conformity with generally accepted accounting principles.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

Accordingly, such information should be read in conjunction with the Organization's 2021 financial statements, from which the comparative totals were derived.

NOTE 3 Cash and Cash Equivalents

As of December 31, 2022, cash funds held by TCSB were committed as follows:

Cash restricted by donors:	
For staff housing (shown as Other Assets)	21,936
For Asbury Building (shown as Other Assets)	18,122
Total cash restricted - Other Assets	<u>40,058</u>
For Alum Rock counseling	14,200
For outreach special projects	196
Total cash restricted	<u>54,454</u>
Total cash and cash equivalents available for operations	<u>2,509,537</u>
Total cash and cash equivalents balance	<u>2,563,991</u>

NOTE 4 Certificate of Deposit and Concentration of Credit Risk

Certificate of deposit in the amount of \$205,887 held by TCSB on December 31, 2022 is deposited with AG Financial Solutions, which is managed by the Assemblies of God Foundation. TCSB has not experienced any losses in AG Financial account. And the management believes TCSB is not subject to a risk of loss beyond that related to market changes.

NOTE 5 Investments

TCSB has an investment account for the convenience of donors. The investment account primarily consists of donated stocks at fair value. As of December 31, 2022, the total value was \$369,644 and the net unrealized loss on investments was \$68,693 for the year.

NOTE 6 Net Assets With Donor Restrictions

The net assets with donor restrictions are available subject to time and purpose restrictions as follows:

For Staff Housing	\$ 21,936.00
For Asbury Building	18,122.00
For Alum Rock Counseling	14,200.00
For Special Projects	196.00
Total	<u>\$ 54,454.00</u>

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

NOTE 7 Special Events

During 2022, TCSB conducted events to acknowledge supporter about current operations and to expose potential new donors to TCSB. Support received from these events and the costs for the direct benefits provided are summarized by each event. All costs related to publicity, travel, related salaries, and administration of the event have been included in fundraising expenses.

NOTE 8 Lease Commitments

- a) TCSB had numerous short-term monthly leases for storage and equipment.
- b) For South Bay thrift store, TCSB continues to rent a space from the current landlord on a month-to-month basis. Starting October 1, 2018, the monthly rental is \$6,365.
- c) On May 1, 2021, TCSB entered an operating lease agreement to rent a building located in 52 Alexander Ave, San Jose. The term starts May 1, 2021 and ends May 1, 2022. The monthly rental is \$3,000. In May 2022, the Organization exercised an "Extended Term" to extend the term of the lease on a month-to-month basis.
- d) On July 15, 2011, TCSB entered a lease agreement to rent an office building for South Bay administrative and business development departments. The term starts July 15, 2011 and ends July 31, 2016. On September 29, 2016, TCSB exercised a "renewal option" to continue the term of the lease for five years and two months. The term also calls for a month-to-month basis. Starting September 2020, the monthly rental is \$9,000. The annual increase rate is 3%. On September 30, 2021, TCSB exercised an "Extended Term" to renew and extend the term of the Lease for another five years.

Based on the financial statement provided by the management, TCSV has adopted ASC 842 - Lease under U.S. generally accepted accounting principles (GAAP). Leased assets and corresponding liabilities are recognized based on the present value of the lease payments over the lease term.

During 2022, TCSV recognized lease expenses associated with the lease in the amount of \$101,900.

As of December 31, 2022, the remaining lease term for this operating lease is 3.75 years.

Because we generally do not have access to the rate implicit in the lease, we utilize the incremental borrowing rate as the discount rate. The annual weighted average discount rate associated with operating leases as of December 31, 2022, is 4%.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

Future minimum lease payments under those long-term leases are as follows:

Year Ending December 31	Amount
2023	105,976
2024	110,215
2025	114,623
2026	<u>88,521</u>
Total	\$419,335

- e) On September 17, 2021, TCSB entered a 63-month lease agreement to rent copiers under which the Organization is the lessee. Specifically, this lease is subject to operating leases. The lease begins on November 16, 2021, and will expire on February 16, 2027. This lease includes fixed rental payments, the monthly rent before November 16, 2022 was \$1,449 and increased to \$1,531 afterward.

Based on the financial statement provided by the management, TCSV has adopted ASC 842 - Lease under U.S. generally accepted accounting principles (GAAP). Leased assets and corresponding liabilities are recognized based on the present value of the lease payments over the lease term.

During 2022, TCSV recognized lease expenses associated with the lease in the amount of \$16,104.

As of December 31, 2022, the remaining lease term for this operating lease is 4.1 years.

Because we generally do not have access to the rate implicit in the lease, we utilize the incremental borrowing rate as the discount rate. The annual weighted average discount rate associated with operating leases as of December 31, 2022, is 5.1%.

Future minimum lease payments under those long-term leases are as follows:

Year Ending December 31	Amount
2023	18,377
2024	18,377
2025	18,377
2026	18,377
2027	<u>1,531</u>
Total	\$75,039

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

Amounts recognized as right-of-use assets related to operating leases are included in the accompanying balance sheet, while related lease liabilities are reported on the current portion and long-term portion of lease liability. As of December 31, 2022, right-of-use assets and lease liabilities related to the operating leases were as follows:

Lease Accounting Under GAAP (Operating lease)	
Balance sheet	2022
Asset	
Right-of-use Asset - Building	\$ 389,918
Right-of-use Asset - Copiers	68,050
Total	457,968
Liability	
Lease liability - Building	389,918
Lease liability - Copiers	68,050
Total	\$ 457,968

NOTE 9 Employee Retirement Plan

TCSB has a 403(b) tax-deferred annuity retirement plan, which is funded by contributions from both TCSB and its employees. In 2022, TCSB has not made any pension contribution to any officers. TCSB has no liability for the administration or payment of benefits of the plan and, accordingly, the present value of the related vested benefits is not reflected on these financial statements.

NOTE 10 Related Party Transactions

- There are intercompany transactions among TCSB, TCEB, TCNV and TCSV. These transactions are accounts receivable, accounts payable, and notes receivable. All these intercompany transactions would be eliminated in the consolidated financial statements. As of December 31, 2022, TCSB has the following accounts receivable or notes receivable from TCEB, TCNV, and TCSV:

	TCEB	TCNV	TCSV	Total
Accounts receivable	149,314	411,654	42,808	603,776
Note receivable	-	698,746	-	698,746
Total	149,314	1,110,400	42,808	1,302,522

- On June 1, 2017, TCNV obtained a promissory note of \$430,000 from TCSB for the Girl's Center with no interest. The loan is secured by a deed of trust and will be due on April 30, 2037. As of December 31, 2022, the unpaid balance was \$430,000.
- On July 18, 2018, TCNV obtained a loan of \$157,000 from TCSB to pay off the loan with a principal balance of \$100,000 from HCGLLC and a loan with a principal balance of \$57,000 from TCSB. The loan is secured by a deed of trust. As of December 31, 2022, the unpaid balance was \$95,878.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

- c. TCNV continues to borrow funds from TCSB for the Las Vegas center. As of December 31, 2022, the unpaid balance was \$40,093.
 - d. TCNV continues to borrow funds from TCSB for the Girl's center. As of December 31, 2022, the unpaid balance was \$132,775.
2. TCSB purchased services from companies that are affiliated with or owned by members directly or indirectly. TCSB has deposited \$205,887 in a ministry investment account (certificates of deposit) with AG Financial Solutions which is affiliated with members of Teen Challenge USA as of December 31, 2022.

Note 11 Prior Year Adjustment

Prior period adjustment is an adjustment on rental expenses.

Note 12 Prepaid expenses and deposits

Prepaid expenses consist primarily of prepaid insurance and prepaid rent. As of December 31, 2022, prepaid expenses were \$32,310.

Note 13 Subsequent Events

The management of TCSB reviewed the results of operations and evaluated subsequent events for the period of time from its year-end December 31, 2022 through November 10, 2023, the date the financial statements were available to be issued, and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

Note 14 Fair Value Measurements

TCSB measure fair value in accordance with Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (FAS 157) which was subsequently included in the FASB Codification as ASC 820. ASC 820 which applies to all financial instruments that are being measured and reported on a fair value basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Inputs other than quoted prices within Level 1 that are observable, either directly or indirectly. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

Level 3 - Inputs are unobservable. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discontinued cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions.

The Organization's financial assets measured at fair value on a recurring basis on December 31, 2022, are classified within Level 1 of the fair value hierarchy.

Note 15 Non-Cash Donations (Contributed Nonfinancial Assets)

TCSB recognized contributed nonfinancial assets within revenue, including contributed household goods, food, clothing, furniture and equipment, and vehicles. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Contributed household goods, clothing, and food were utilized and used in the program services. In valuing household goods and food, TCSB estimated the fair market value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.

Contributed furniture and equipment were used in general and administrative activities. Contributed vehicles are valued and are reported at the estimated fair market value in the financial statements.

Contributed vehicles were used in general and administrative activities. Contributed vehicles are valued and are reported at the estimated fair market value in the financial statements.

For the year ended December 31, 2022, TCSB recognized contributed nonfinancial assets as follows:

	<u>Revenue Recognized</u>	<u>Utilization in Programs</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques</u>
Household goods	\$ 2,236	Program Services	None	Fair value
Food	167,175	Program Services	None	Fair value
Clothing	229	Program Services	None	Fair value
Furniture and equipment	698	General and Administrative	None	Fair value
Vehicles	15,012	General and Administrative	None	Fair value
Total	<u>\$ 185,350</u>			

Note 16 Availability and Liquidity

This presentation is required by the newly adopted ASU 2016-14 which is effective for annual financial statements issued for fiscal years beginning after December 15, 2018. The following represents TCSB's financial assets as of December 31, 2022:

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2022

Financial assets at year end:	
Cash	\$ 2,523,933
Cash restricted	40,058
Accounts receivable-related parties	603,776
Restricted cash-Certificates of deposit	<u>205,887</u>
Total financial assets	<u>3,373,654</u>
Less amounts not available to be used within one year:	
Restricted cash-Certificates of deposit	205,887
Net assets with donor restrictions	<u>40,058</u>
	<u>245,945</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,127,709</u>

TCSB's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in certificates of deposit over one year. As of December 31, 2022, the management believes that TCSB has sufficient funds to meet the current year obligation.

**SOUTH BAY TEEN CHALLENGE
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

Nature	Program expenses	General and Administration	Fundraising	Total 2022	Summaried 2021
Salaries and wages	\$ 310,398	\$ 75,434	\$ 65,577	\$ 451,409	\$ 323,037
Employee benefits	61,410	62,015	(14,247)	109,178	106,533
Payroll taxes	30,121	3,311	3,967	37,399	30,085
Hiring Costs	2,400	-	168	2,569	975
Per Diem Expense	24,673	-	-	24,673	28,408
Payroll Reimbursements	8,312	16,926	15,786	41,024	16,176
Bad Checks	-	14	-	14	-
Bank Service Charges	2,076	67	15,233	17,376	6,434
Permits & Licenses	1,433	-	257	1,690	1,768
Corporation Costs	3,101	606	708	4,415	2,319
Accounting Fees	-	12,797	-	12,797	6,671
Property Taxes	9,686	-	-	9,686	8,897
Penalties	-	1,462	-	1,462	-
General Supplies	190,588	577	4,714	195,878	130,889
Telephones	14,863	7,249	8,570	30,682	22,531
Postage and Delivery	53,996	-	(1,406)	52,590	73,059
Utilities	64,044	3,444	6,526	74,015	61,646
Rent	133,614	29,720	24,776	188,111	168,478
Building Repair&Maintenance	9,123	2,374	3,154	14,651	5,633
Liability Insurance	21,384	895	1,202	23,481	19,648
Equipment	15,773	4,987	16,130	36,890	14,228
Printing and Reproduction	61,998	-	(1,561)	60,437	52,525
Travel	80,594	2,292	18,045	100,931	84,488
Interest Expense	287	-	-	287	4,117
Depreciation, depletion, and amortization	90,065	6,786	6,185	103,036	91,377
Loss, Theft, Disposal	906	-	3,058	3,963	2,312
Affiliates	5,400	-	-	5,400	5,400
Dues and Subscriptions	281	49	204	534	203
Promotions & Advertising	6,492	2,065	917	9,475	8,535
Training	5,109	-	84	5,193	4,359
Professional Services	23,788	87	117	23,991	22,840
Projects - Special	-	-	-	-	30,000
Administration Expenses	150,325	-	-	150,325	164,845
Other expenses	38,839	38	(14,682)	24,195	31,007
Total	\$ 1,421,080	\$ 233,192	\$ 163,482	\$ 1,817,754	\$ 1,529,423