

SOUTH BAY TEEN CHALLENGE
(A Nonprofit Corporation)

FINANCIAL STATEMENTS
Together with
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020

Tang & Lee, LLP

Certified Public Accountants

SOUTH BAY TEEN CHALLENGE
(A Nonprofit Corporation)
FOR THE YEAR ENDED DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of **South Bay Teen Challenge** (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Bay Teen Challenge as of December 31, 2020, and 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.

Report on Summarized Comparative Information

We have previously audited the South Bay Teen Challenge's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, 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 pages 16 is presented for purposes of additional analysis and are 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
October 8, 2021

SOUTH BAY TEEN CHALLENGE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020
(With Comparative Totals for December 31, 2019)

ASSETS	Without donor restrictions	With donor restrictions	Total 2020	Summarized 2019
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,461,073	\$ 147,171	\$ 1,608,244	\$ 1,031,953
Certificate of deposit	203,031	-	203,031	200,446
Accounts receivable - related parties	697,039	-	697,039	606,085
Prepaid expenses and deposits	15,625	-	15,625	11,403
Total current assets	<u>2,376,768</u>	<u>147,171</u>	<u>2,523,939</u>	<u>1,849,887</u>
PROPERTY AND EQUIPMENT:				
Land	375,759	-	375,759	375,759
Buildings and improvements	1,959,086	-	1,959,086	1,894,886
Furniture and equipment	194,885	-	194,885	190,074
Vehicles	255,103	-	255,103	259,631
	<u>2,784,833</u>	<u>-</u>	<u>2,784,833</u>	<u>2,720,350</u>
Less accumulated depreciation	<u>(1,838,611)</u>	<u>-</u>	<u>(1,838,611)</u>	<u>(1,750,160)</u>
	946,222	-	946,222	970,190
Construction in progress	76,965	-	76,965	44,550
Total property and equipment	<u>1,023,187</u>	<u>-</u>	<u>1,023,187</u>	<u>1,014,740</u>
OTHER ASSETS:				
Note receivable - start-up	594,580	-	594,580	609,033
Mortgage loan fees	696	-	696	951
Cash restricted-other asset investment	-	40,058	40,058	40,484
Investment	418,364	-	418,364	395,749
Deposits - long term	10,002	-	10,002	10,002
Total other assets	<u>1,023,643</u>	<u>40,058</u>	<u>1,063,700</u>	<u>1,056,219</u>
Total assets	<u>\$ 4,423,597</u>	<u>\$ 187,229</u>	<u>\$ 4,610,826</u>	<u>\$ 3,920,846</u>

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

SOUTH BAY TEEN CHALLENGE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020
(Continued)
(With Comparative Totals for December 31, 2019)

LIABILITIES AND NET ASSETS	Without donor restrictions	With donor restrictions	Total 2020	Summarized 2019
CURRENT LIABILITIES:				
Accounts payable	\$ 41,857	\$ -	\$ 41,857	\$ 22,848
Accrued expenses	10,154	-	10,154	16,756
Other payables	37,416	-	37,416	17,633
Paycheck protection program loan	121,433	-	121,433	-
Current portion of notes payable	27,299	-	27,299	25,796
Total current liabilities	238,159	-	238,159	83,033
Long-term liabilities:				
Notes payable, net of current portion	52,043	-	52,043	79,362
Total liabilities	290,202	-	290,202	162,395
COMMITMENTS AND CONTINGENCIES				
NET ASSETS:				
With donor restrictions	-	\$ 187,229	187,229	187,655
Without donor restrictions	4,133,395	-	4,133,395	3,570,796
Total net assets	4,133,395	187,229	4,320,624	3,758,451
Total liabilities and net assets	\$ 4,423,597	\$ 187,229	\$ 4,610,826	\$ 3,920,846

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, 2020
(With Comparative Totals for December 31, 2019)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total 2020</u>	<u>Summarized 2019</u>
SUPPORT AND REVENUE:				
General contributions	\$ 1,363,053	\$ -	\$ 1,363,053	\$ 1,181,215
Non-cash donations	18,488	-	18,488	7,286
Special events contributions	233,198	-	233,198	200,176
Special events direct benefits cost	(1,445)	-	(1,445)	(40,608)
Net assets released from restrictions	426	(426)	-	-
Total support	<u>1,613,720</u>	<u>(426)</u>	<u>1,613,294</u>	<u>1,348,069</u>
Interest income and miscellaneous income	46,009	-	46,009	50,097
Program fees	193,082	-	193,082	146,471
Sale of assets and donated items	109,777	-	109,777	128,405
Total revenue	<u>348,868</u>	<u>-</u>	<u>348,868</u>	<u>324,973</u>
Total support and revenue	<u>1,962,588</u>	<u>(426)</u>	<u>1,962,162</u>	<u>1,673,042</u>
EXPENSES:				
Program services	1,202,428	-	1,202,428	1,190,741
Supporting services -				
General and administrative	98,511	-	98,511	64,747
Fundraising	105,541	-	105,541	152,029
Total supporting services	<u>204,052</u>	<u>-</u>	<u>204,052</u>	<u>216,776</u>
Total expenses	<u>1,406,480</u>	<u>-</u>	<u>1,406,480</u>	<u>1,407,517</u>
Changes(increase/(decrease) in net assets before nonoperating activities	556,108	(426)	555,682	265,525
NON-OPERATING ACTIVITIES				
Net unrealized gain or (loss) on investments	6,491	-	6,491	24,931
	<u>6,491</u>	<u>-</u>	<u>6,491</u>	<u>24,931</u>
Changes in net assets- increase/(decrease)	562,599	(426)	562,173	290,456
NET ASSETS, beginning of year	3,570,796	187,655	3,758,451	3,482,448
Prior period adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,453)</u>
Restated net assets, beginning of year	3,570,796	187,655	3,758,451	3,467,995
NET ASSETS, end of year	<u>\$ 4,133,395</u>	<u>\$ 187,229</u>	<u>\$ 4,320,624</u>	<u>\$ 3,758,451</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, 2020
(With Comparative Totals for December 31, 2019)**

	<u>Total 2020</u>	<u>Summarized 2019</u>
Cash flows from operating activities:		
Increase (Decrease) in net assets	\$ 562,173	\$ 290,456
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	98,750	103,949
Unrealized loss (gain) on investments	(6,491)	(24,931)
Changes (increase)/decrease in assets and liabilities:		
Certificate of deposits	(2,585)	(3,563)
Accounts receivable	(90,954)	(94,647)
Prepaid expenses and deposits	(4,222)	41,376
Mortgage loan fee	254	253
Investments income to be reinvested	(16,124)	(9,547)
Other assets (restricted)	426	26,252
Accounts payables and accrued expenses	12,407	(14,222)
Insurance and other payables	19,783	(18,559)
Period period adjustments	-	(14,453)
	<hr/>	<hr/>
Net cash flows provided by operating activities	573,417	282,364
Cash flows for investing activities:		
Note receivable - start-up	14,453	11,534
Acquisition of property and equipment	(79,309)	(10,023)
Construction in progress	(32,415)	(28,001)
Disposal of property and equipment	4,528	-
	<hr/>	<hr/>
Net cash flows used by investing activities	(92,743)	(26,490)
Cash flows for financing activities:		
Paycheck protection program loan	121,433	-
(Debt reduction)/increase on long-term debt	(25,816)	(24,331)
	<hr/>	<hr/>
Net cash flows used in financing activities	95,617	(24,331)
Net increase in cash	576,291	231,543
Cash, beginning of year	<hr/>	<hr/>
	1,031,953	800,410
Cash, end of year	<hr/> <hr/>	<hr/> <hr/>
	1,608,244	1,031,953
Supplementary information:		
Interest paid during the year	\$5,591	\$7,076

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

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements
December 31, 2020

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 to 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.

South Bay Teen Challenge (TCSB) assists participants in finding employment in the local community. In return, participants agree to contribute back 85% of their net earnings to the Organization. These monies are then used to offset some of their costs associated with the program, including housing, food, and program expenses.

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 the operating expenses.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2020

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

NOTE 2 Summary of Significant Accounting Policies

a. **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 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.

b. **Revenue and Expenses**

Without donor restricted contributions are recognized when cash is received or ownership of donated assets is transferred to TCSB.

With donor restricted contributions are recognized as contribution income in the statement of activities when cash or ownership of donated assets is transferred to TCSB. These contributions are subsequently transferred to net assets without donor restrictions to cover expenses that are incurred to satisfy those restrictions.

TCSB believes that motivation for giving results 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.

c. **Property and Equipment**

Land, buildings, and equipment valued at \$1,000 or more are capitalized and recorded at cost purchased or at fair market value at the date of gift if donated.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2020

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	5
Vehicles	5

d. **Loan Fees**

Mortgage loan fees are amortized ratably over the life of the loans.

e. **Donated Goods and Services**

Donated goods and services are recorded at their fair market value at the date of gift or service.

f. **Cash and Cash Equivalents Definition**

Cash and cash equivalents comprise cash at bank 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 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 percent of expenses attributable to direct program expenditures.

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 and state income taxes under Sections 501(c)(3) of the Internal Revenue Code (IRC), 2370d of the California Revenue and Taxation Code. 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

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2020

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 and administrative and fundraising expenses are those not directly identifiable with any specific function but which 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. Realized and 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, receivable, 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 detail by net asset classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's 2018 financial statements, from which the comparative totals were derived.

NOTE 3 Cash and Cash Equivalents

As of December 31, 2020, cash funds held by TCSB were committed as follows:

<hr/>	
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	<hr/> 40,058
For future Girls Teen Center	132,775
For Alum Rock counseling	14,200
For outreach special projects	196
Total cash restricted	<hr/> 187,229
Total cash and cash equivalents available for operations	<hr/> 1,461,073

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2020

Total cash and cash equivalents balance \$ 1,648,302

NOTE 4 Certificate of Deposit and Concentration of Credit Risk

Certificate of deposit in the amount of \$203,031 held by TCSB on December 31, 2020 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, 2020, the total value was \$418,364 and the net unrealized gain on investments was \$6,491 for the year.

NOTE 6 Note Payable

TCSB was able to refinance the note in the amount of \$352,000 from the Assemblies of God Financial Services Group on October 6, 2003. The interest rate is 6% per year, and the term of the note is over 20 years (240 months). It is secured by Alum Rock facility. The monthly payment is \$2,617 per month, and the outstanding balance on December 31, 2020 was \$79,342.

As of December 31, 2020, the principal which is required to be paid over the next five years for all mortgages, is as follows:

Year Ending December 31	Amount
2021	\$ 27,299
2022	29,077
2023	22,966
Total	79,342
Current portion	(27,299)
Long-term portion	\$ 52,043

NOTE 7 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
For Asbury Building	18,122
For Future Girls Teen Center	132,775
For Alum Rock Counseling	14,200
For Special Projects	196
Total	\$ 187,229

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2020

NOTE 8 Special Events

During 2020, 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 fund raising expenses.

NOTE 9 Commitments

- a) TCSB had numerous short-term monthly leases for storages and equipment.
- b) For South Bay thrift store, TCSB continues to rent a space from current landlord on a month-to-month basis. Starting October 1, 2018, the monthly rental is \$6,365.
- c) One 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 \$8,162. The annual increase rate is 3%.

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

Year Ending December 31	Amount
2021	75,668
Total	\$75,668

NOTE 10 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 2020, 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 11 Related Party Transactions

1. There are intercompany transactions among TCSB, TCEB, TCNV and TCSV. These transactions are accounts receivable, accounts payable, note receivable. All these intercompany transactions would be eliminated in the consolidated financial statements. As of December 31, 2020, TCSB has the following accounts receivable or note receivable from TCEB, TCNV, and TCSV:

	TCEB	TCNV	TCSV	Total
Accounts receivable	199,831	436,436	60,772	697,039
Note receivable	-	594,580	-	594,580
Total	199,831	1,031,016	60,772	1,291,619

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2020

- a. On June 1, 2017, TCNV obtained a promissory note of \$430,000 from TCSB for 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, 2020, the unpaid balance was \$430,000.
 - b. On July 18, 2018, TCNV obtained a loan of \$157,000 from TCSB to payoff loan with principle balance of \$100,000 from HCGLLC and loan with principle balance of \$57,000 from TCSB. The loan is secured by a deed of trust. As of December 31, 2020, the unpaid balance was \$124,487.
 - c. TCNV continues to borrow fund from TCSB for Las Vegas center. As of December 31, 2020, the unpaid balance was \$40,093.
2. TCSB purchased services from companies that are affiliated with or owned by members directly or indirectly. TCSB has one mortgage notes payable with the AG Financial Solutions that is affiliated with members of Teen Challenge USA, and they all are members of the Assemblies of God. The total amount financed with the institution, as of December 31, 2020, was \$79,342 (see Note 6). Additionally, TCSB has also deposited \$203,031 in a ministry investment account (certificates of deposit) with the same financial institution as of December 31, 2020.

Note 12 Paycheck Protection Program Loan

TCSB has applied Paycheck Protection Program (PPP) administered by Small Business Administration of Federal government. The program is to provide economic relief to small businesses and non-profit entities adversely affected by the pandemic nationwide. TCSB had received the relief in the amount of \$121,433 and has been using it for the operation. On May 21, 2021, the total amount of \$121,433 had been forgiven. However, the Organization has not written off the total loan until 2021.

Note 13 Subsequent Events

The management of TCSB has reviewed the results of operations and evaluated subsequent events for the period of time from its year ended December 31, 2020 through October 8, 2021, 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. However, the following events have occurred and the nature of which would require disclosure.

Many people have been affected by pandemic COVID-19 starting in the month of March throughout the country. The shelter-in-place orders were declared on March 17. The activities have been gradually suspended. As a result, TCSB had to find alternate sources of fundraising. Thrift Stores were closed for more than five months but have now reopened. Staffs were unable to conduct Door to Door fundraising and some other fundraising activities as well. Staffs are now doing a little Door to Door as restrictions are loosened. And some suspended fundraising activities are added back as regulations allow. The overall ministry and student life have not changed and continue on. Currently, the office was allowed to access. As of today, many activities have been somewhat held back and the impact of this pandemic on TCSB's results of operation, financial position, and liquidity in the coming year has not been determined as of today.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2020

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 priorities 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.

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.

TCSB's financial assets measured at fair value have been categorized based upon a fair value hierarchy. The following page presents information about TCSB's assets and liabilities measured at fair value as of December 31, 2020.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance as of December 31, 2020
Cash and cash equivalents	\$ 1,608,244			\$ 1,608,244
Certificates of deposit	203,031			203,031
Accounts receivable	697,039			697,039
Prepaid expenses and deposits	15,625			15,625
Property and equipment		\$ 1,023,187		1,023,187
Cash restricted – other asset investment	40,058			40,058
Investments	418,364			418,364
Note receivable - start-up		594,580		594,580
Mortgage loan fee	696			696
Deposits – long term		10,002		10,002
Total	2,983,057	1,627,769		4,610,826
Accounts payable	41,857			41,857

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2020

Accrued expenses	10,154		10,154
Other payables	37,416		37,416
Paycheck protection program loan	121,433		121,433
Notes payable		79,342	79,342
Total	\$ 210,860	\$ 79,342	\$ 290,202

Note 15 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, 2020:

Financial assets at year end:	
Cash	\$ 1,608,244
Cash restricted	40,058
Accounts receivable	697,039
Restricted cash-Certificates of deposit	203,031
Total financial assets	<u>2,548,372</u>
Less amounts not available to be used within one year:	
Restricted cash-Certificates of deposit	203,031
Net assets with donor restrictions	40,058
	<u>243,089</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 2,305,283</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, 2020, the management believes that TCSB has sufficient fund to meet the current year obligation.

**SOUTH BAY TEEN CHALLENGE
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

Nature	Program expenses	General and Administration	Fundraising	Total 2020
Salaries and wages	\$ 271,644	\$ 21,061	\$ 26,636	\$ 319,341
Employee benefits	113,552	28,672	3,468	145,692
Payroll taxes	24,673	1,222	1,179	27,074
Hiring Costs	563	25	7	595
Per Diem Expense	31,870	-	-	31,870
Payroll Reimbursements	-	21,875	6,886	28,761
Bank Service Charges	2,817	60	4,382	7,259
Permits & Licenses	1,346	-	120	1,466
Corporation Costs	1,930	200	340	2,470
Accounting Fees	1,750	4,109	-	5,859
Property Taxes	8,618	-	-	8,618
General Supplies	17,996	266	3,263	21,525
Telephones	20,856	3,219	4,100	28,175
Postage and Delivery	89,303	35	10,161	99,499
Utilities	68,232	1,069	2,531	71,832
Rent	82,177	10,986	15,442	108,605
Building Repair&Maintenance	3,022	51	89	3,162
Liability Insurance	14,094	277	479	14,850
Equipment	4,205	4,338	6,216	14,759
Printing and Reproduction	79,170	-	8,700	87,870
Travel	54,195	227	6,459	60,881
Interest Expense	5,897	12	-	5,909
Depreciation, depletion, and amortization	87,578	684	2,945	91,207
Loss, Theft, Disposal	1,761	-	1,557	3,318
Affiliates	4,950	-	-	4,950
Dues and Subscriptions	51	67	56	174
Promotions & Advertising	5,244	41	449	5,734
Training	2,198	-	29	2,227
Professional Services	22,394	13	47	22,454
Projects - Special	20,000	-	-	20,000
Administration Expenses	140,048	-	-	140,048
Other expenses	20,294	2	-	20,296
Total	\$ 1,202,428	\$ 98,511	\$ 105,541	\$ 1,406,480