

SOUTH BAY TEEN CHALLENGE
(A Nonprofit Corporation)

FINANCIAL STATEMENTS
Together with
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2021

Tang & Lee, LLP

Certified Public Accountants

SOUTH BAY TEEN CHALLENGE
(A Nonprofit Corporation)
FOR THE YEAR ENDED DECEMBER 31, 2021

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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** (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, 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 South Bay Teen Challenge as of December 31, 2021, 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.

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 South Bay Teen Challenge 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 South Bay Teen Challenge '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 South Bay Teen Challenge '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 South Bay Teen Challenge '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 the South Bay Teen Challenge's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 8, 2021. 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 pages 18 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
September 26, 2022

SOUTH BAY TEEN CHALLENGE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021
(With Comparative Totals for December 31, 2020)

ASSETS	Without donor restrictions	With donor restrictions	Total 2021	Summarized 2020
CURRENT ASSETS:				
Cash and cash equivalents	\$ 2,188,196	\$ 147,171	\$ 2,335,367	\$ 1,608,244
Certificate of deposit	204,273	-	204,273	203,031
Accounts receivable - related parties	587,930	-	587,930	697,039
Prepaid expenses and deposits	16,292	-	16,292	15,625
Total current assets	<u>2,996,691</u>	<u>147,171</u>	<u>3,143,862</u>	<u>2,523,939</u>
PROPERTY AND EQUIPMENT:				
Land	375,759	-	375,759	375,759
Buildings and improvements	1,959,086	-	1,959,086	1,959,086
Furniture and equipment	203,311	-	203,311	194,885
Vehicles	268,390	-	268,390	255,103
	<u>2,806,546</u>	<u>-</u>	<u>2,806,546</u>	<u>2,784,833</u>
Less accumulated depreciation	<u>(1,898,313)</u>	<u>-</u>	<u>(1,898,313)</u>	<u>(1,838,611)</u>
	908,233	-	908,233	946,222
Construction in progress	94,763	-	94,763	76,965
Total property and equipment	<u>1,002,996</u>	<u>-</u>	<u>1,002,996</u>	<u>1,023,187</u>
OTHER ASSETS:				
Note receivable - related parties	580,420	-	580,420	594,580
Mortgage loan fees	444	-	444	696
Cash restricted-other asset investment	-	40,058	40,058	40,058
Investment	457,239	-	457,239	418,364
Deposits - long term	15,602	-	15,602	10,002
Total other assets	<u>1,053,705</u>	<u>40,058</u>	<u>1,093,763</u>	<u>1,063,700</u>
Total assets	<u>\$ 5,053,392</u>	<u>\$ 187,229</u>	<u>\$ 5,240,621</u>	<u>\$ 4,610,826</u>

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

SOUTH BAY TEEN CHALLENGE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021
(Continued)
(With Comparative Totals for December 31, 2020)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total 2021</u>	<u>Summarized 2020</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 37,839	\$ -	\$ 37,839	\$ 41,857
Accrued expenses	14,160	-	14,160	10,154
Other payables	69,577	-	69,577	37,416
Paycheck protection program loan	-	-	-	121,433
Current portion of notes payable	-	-	-	27,299
Total current liabilities	<u>121,576</u>	<u>-</u>	<u>121,576</u>	<u>238,159</u>
Long-term liabilities:				
Notes payable, net of current portion	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,043</u>
Total liabilities	<u>121,576</u>	<u>-</u>	<u>121,576</u>	<u>290,202</u>
COMMITMENTS AND CONTINGENCIES				
NET ASSETS:				
With donor restrictions	-	187,229	187,229	187,229
Without donor restrictions	<u>4,931,816</u>	<u>-</u>	<u>4,931,816</u>	<u>4,133,395</u>
Total net assets	<u>4,931,816</u>	<u>187,229</u>	<u>5,119,045</u>	<u>4,320,624</u>
Total liabilities and net assets	<u>\$ 5,053,392</u>	<u>\$ 187,229</u>	<u>\$ 5,240,621</u>	<u>\$ 4,610,826</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, 2021
(With Comparative Totals for December 31, 2020)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total 2021</u>	<u>Summarized 2020</u>
SUPPORT AND REVENUE:				
General contributions	\$ 1,573,317	\$ -	\$ 1,573,317	\$ 1,363,053
Non-cash donations	149,985	-	149,985	18,488
Special events contributions	145,266	-	145,266	233,198
Special events direct benefits cost	(1,618)	-	(1,618)	(1,445)
Total support	<u>1,866,950</u>	<u>-</u>	<u>1,866,950</u>	<u>1,613,294</u>
Interest income and miscellaneous income	30,827	-	30,827	46,009
Program fees	248,881	-	248,881	193,082
Sale of assets and donated items	200,577	-	200,577	109,777
Total revenue	<u>480,285</u>	<u>-</u>	<u>480,285</u>	<u>348,868</u>
Total support and revenue	<u>2,347,235</u>	<u>-</u>	<u>2,347,235</u>	<u>1,962,162</u>
EXPENSES:				
Program services	1,360,227	-	1,360,227	1,202,428
Supporting services -				
General and administrative	89,825	-	89,825	98,511
Fundraising	79,371	-	79,371	105,541
Total supporting services	<u>169,196</u>	<u>-</u>	<u>169,196</u>	<u>204,052</u>
Total expenses	<u>1,529,423</u>	<u>-</u>	<u>1,529,423</u>	<u>1,406,480</u>
Changes(increase/(decrease) in net assets before nonoperating activities	817,812	-	817,812	555,682
NON-OPERATING ACTIVITIES				
Net unrealized gain or (loss) on investments	5,443	-	5,443	6,491
	<u>5,443</u>	<u>-</u>	<u>5,443</u>	<u>6,491</u>
Changes in net assets- increase/(decrease)	823,255	-	823,255	562,173
NET ASSETS, beginning of year	4,133,395	187,229	4,320,624	3,758,451
Prior period adjustment	<u>(24,834)</u>	<u>-</u>	<u>(24,834)</u>	<u>-</u>
Restated net assets, beginning of year	4,108,561	187,229	4,295,790	3,758,451
NET ASSETS, end of year	<u>\$ 4,931,816</u>	<u>\$ 187,229</u>	<u>\$ 5,119,045</u>	<u>\$ 4,320,624</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, 2021
(With Comparative Totals for December 31, 2020)**

	Total 2021	Summarized 2020
Cash flows from operating activities:		
Increase (Decrease) in net assets	\$ 823,255	\$ 562,173
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	103,460	98,750
Unrealized loss (gain) on investments	(5,443)	(6,491)
Changes (increase)/decrease in assets and liabilities:		
Certificate of deposits	(1,243)	(2,585)
Accounts receivable	109,109	(90,954)
Prepaid expenses and deposits	(667)	(4,222)
Mortgage loan fee	252	254
Investments income to be reinvested	(33,431)	(16,124)
Deposit-long term	(5,600)	-
Other assets (restricted)	-	426
Accounts payables and accrued expenses	(12)	12,407
Insurance and other payables	32,161	19,783
Prior period adjustments	(24,834)	-
	997,007	573,417
Net cash flows provided by operating activities		
Cash flows for investing activities:		
Note receivable - start-up	14,160	14,453
Acquisition of property and equipment	(77,980)	(79,309)
Construction in progress	(17,798)	(32,415)
Disposal of property and equipment	12,509	4,528
	(69,109)	(92,743)
Net cash flows used by investing activities		
Cash flows for financing activities:		
Tax exempt income-PPP loan forgiven	(121,433)	121,433
(Debt reduction)/increase on long-term debt	(79,342)	(25,816)
	(200,775)	95,617
Net cash flows used in financing activities		
Net increase in cash	727,123	576,291
Cash, beginning of year	1,608,244	1,031,953
Cash, end of year	2,335,367	1,608,244
Supplementary information:		
Interest paid during the year	\$3,849	\$5,591

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

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements
December 31, 2021

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, 2021

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. **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 previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under 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.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2021

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.

c. **Revenue Recognition**

1) Contributions

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.

2) Program fees

TCSB recognizes program fees income based on the hours worked. Work-study programs vary in qualifications and responsibilities, so the pay will depend on the job that students are hired to do. Pay may also depend the policies and/or the minimum wage requirements in the state. How many hours students work each week will depend on the type of job students get and employer's expectations.

3) Sales of assets and donated items

TCSB recognizes sales revenue when it is realized or realizable and earned. TCSB considers revenue realized or realizable and earned when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonable certain.

d. **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 giving(donation).

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

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2021

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

e. **Mortgage Loan Fees**

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

f. **Non-cash Donations**

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

g. **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.

h. **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.

i. **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.

j. **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.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2021

k. **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.

l. **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.

m. **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.

n. **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. Accordingly, such information should be read in conjunction with the Organization's 2020 financial statements, from which the comparative totals were derived.

NOTE 3 Cash and Cash Equivalents

As of December 31, 2021, 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/> 2,188,196
Total cash and cash equivalents balance	<hr/> <u>\$ 2,375,425</u>

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2021

NOTE 4 Certificate of Deposit and Concentration of Credit Risk

Certificate of deposit in the amount of \$204,273 held by TCSB on December 31, 2021 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, 2021, the total value was \$457,239 and the net unrealized gain on investments was \$5,443 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
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

NOTE 7 Special Events

During 2021, 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 8 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 \$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.

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

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2021

Year Ending December 31	Amount
2022	101,900
2023	105,976
2024	110,215
2025	114,623
2026	<u>88,521</u>
Total	\$521,235

- d) 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.

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 2021, 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

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, 2021, TCSB has the following accounts receivable or note receivable from TCEB, TCNV, and TCSV:

	TCEB	TCNV	TCSV	Total
Accounts receivable	163,670	420,903	3,356	587,929
Note receivable	-	580,420	-	580,420
Total	163,670	1,001,323	3,356	1,168,349

- 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, 2021, the unpaid balance was \$430,000.
- b. On July 18, 2018, TCNV obtained a loan of \$157,000 from TCSB to payoff loan with principal 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, 2021, the unpaid balance was \$110,327.
- c. TCNV continues to borrow fund from TCSB for Las Vegas center. As of December 31, 2021, 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 deposited \$204,273 in a ministry investment account (certificates of deposit) with the AG Financial Solutions that is affiliated with members of Teen Challenge USA as of December 31, 2021

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2021

Note 13 Prior Year Adjustment

Prior period adjustment is an adjustment on payroll expenses.

Note 14 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, 2021 through September 26, 2022, 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 15 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, 2021.

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2021

Note 16 Non-Cash Donations (Contributed Nonfinancial Assets)

TCSB recognized contributed nonfinancial assets within revenue, including contributed household goods, food, clothing, vehicles and services. 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 vehicle 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 services recognized comprise with costs of labor of refrigerator repairs. Contributed services are valued and are reported at the estimated fair market value in the financial statements.

For the year ended December 31, 2021, TCSB recognized contributed nonfinancial assets as following:

	Revenue Recognized	Utilization in Programs	Donor Restrictions	Valuation Techniques
Household goods	\$ 14,107	Program Services	None	Fair value
Food	103,143	Program Services	None	Fair value
Clothing	12,800	Program Services	None	Fair value
Vehicles	16,116	General and Administrative	None	Fair value
Services	3,819	General and Administrative	None	Fair value
Total	<u>\$ 149,985</u>			

Note 17 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, 2021:

SOUTH BAY TEEN CHALLENGE
Notes to Financial Statements (Continued)
December 31, 2021

Financial assets at year end:	
Cash	\$ 2,335,367
Cash restricted	40,058
Accounts receivable	587,930
Restricted cash-Certificates of deposit	204,273
Total financial assets	3,167,628
Less amounts not available to be used within one year:	
Restricted cash-Certificates of deposit	204,273
Net assets with donor restrictions	40,058
	244,331
Financial assets available to meet general expenditures over the next twelve months	\$ 2,923,297

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, 2021, 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, 2021**

<u>Nature</u>	<u>Program expenses</u>	<u>General and Administration</u>	<u>Fundraising</u>	<u>Total 2021</u>	<u>Summaried 2020</u>
Salaries and wages	\$ 267,570	\$ 31,989	\$ 23,478	\$ 323,037	\$ 319,341
Employee benefits	94,209	11,066	1,258	106,533	145,692
Payroll taxes	27,144	1,777	1,164	30,085	27,074
Hiring Costs	914	-	61	975	595
Per Diem Expense	28,449	-	(41)	28,408	31,870
Payroll Reimbursements	2,644	8,389	5,143	16,176	28,761
Bank Service Charges	2,287	36	4,111	6,434	7,259
Permits & Licenses	1,668	-	100	1,768	1,466
Corporation Costs	1,553	556	210	2,319	2,470
Accounting Fees	-	6,671	-	6,671	5,859
Property Taxes	8,815	-	82	8,897	8,618
General Supplies	125,743	78	5,068	130,889	21,525
Telephones	15,138	4,132	3,261	22,531	28,175
Postage and Delivery	67,373	5	5,681	73,059	99,499
Utilities	58,138	1,509	1,999	61,646	71,832
Rent	149,280	15,780	3,418	168,478	108,605
Building Repair&Maintenance	5,377	133	123	5,633	3,162
Liability Insurance	18,553	559	536	19,648	14,850
Equipment	5,395	2,391	6,442	14,228	14,759
Printing and Reproduction	49,078	8	3,439	52,525	87,870
Travel	76,214	949	7,325	84,488	60,881
Interest Expense	4,117	-	-	4,117	5,909
Depreciation, depletion, and amortization	86,504	2,804	2,069	91,377	91,207
Loss, Theft, Disposal	-	822	1,490	2,312	3,318
Affiliates	5,400	-	-	5,400	4,950
Dues and Subscriptions	115	31	57	203	174
Promotions & Advertising	8,422	58	55	8,535	5,734
Training	4,039	64	256	4,359	2,227
Professional Services	22,805	18	17	22,840	22,454
Projects - Special	30,000	-	-	30,000	20,000
Administration Expenses	164,845	-	-	164,845	140,048
Other expenses	28,438	-	2,569	31,007	20,296
Total	\$ 1,360,227	\$ 89,825	\$ 79,371	\$ 1,529,423	\$ 1,406,480