

TEEN CHALLENGE, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2013 AND 2012

TEEN CHALLENGE, INC.
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Contents

	<u>Page</u>
Independent Accountant's Review Report	1
Financial Statements	
Statements of financial position	2
Statements of activities	3 - 4
Statements of cash flows	5
Notes to financial statements	6 - 15
Supplementary Information	
Schedule of functional expenses	16



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Trustees
Teen Challenge, Inc.
Brooklyn, NY

We have reviewed the accompanying statements of financial position of Teen Challenge, Inc. (a nonprofit organization) (the "Organization") as of December 31, 2013 and 2012 and the related statements of activities and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our reviews were made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information included in the accompanying schedule of functional expenses on page 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the reviews of the basic financial statements, and we did not become aware of any material modifications that should be made to such information.

White Plains, New York
May 8, 2014


CITRIN COOPERMAN & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

TEEN CHALLENGE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 913,551	\$ 1,030,182
Restricted cash	50,000	50,000
Contributions receivable	32,032	46,520
Other receivables	2,787	18,262
Prepaid expenses and other assets	20,590	13,106
Franchise fee	15,000	-
Property and equipment, net	848,892	863,452
Security deposit	4,200	4,200
Long-term investments	<u>2,000,000</u>	<u>2,000,000</u>
TOTAL ASSETS	<u>\$ 3,887,052</u>	<u>\$ 4,025,722</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 8,286	\$ 12,403
Accrued expenses and other liabilities	30,500	25,000
Capital leases payable	23,075	23,618
Notes payable	<u>49,674</u>	<u>58,389</u>
Total liabilities	<u>111,535</u>	<u>119,410</u>
Commitments and contingencies (Notes 5, 6, 7, and 8)		
Net assets:		
Unrestricted	3,760,812	3,889,306
Temporarily restricted	<u>14,705</u>	<u>17,006</u>
Total net assets	<u>3,775,517</u>	<u>3,906,312</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,887,052</u>	<u>\$ 4,025,722</u>

See independent accountant's review report and accompanying notes to financial statements.

TEEN CHALLENGE, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
General donations	\$ 723,841	\$ 30,000	\$ 753,841
Wills	30,472	-	30,472
Student generated support	<u>163,326</u>	<u>-</u>	<u>163,326</u>
Total revenue and support	<u>917,639</u>	<u>30,000</u>	<u>947,639</u>
Other support:			
Interest and dividend income	108,661	-	108,661
Student housing reimbursements	4,945	-	4,945
Thriftstore income	4,802	-	4,802
Other income	5,586	-	5,586
Gain on sale of property	<u>1,407</u>	<u>-</u>	<u>1,407</u>
Total other support	<u>125,401</u>	<u>-</u>	<u>125,401</u>
Total revenue and support and other support before net assets released from restrictions	1,043,040	30,000	1,073,040
Net assets released from restrictions	<u>32,301</u>	<u>(32,301)</u>	<u>-</u>
Total revenue and support, other support and net assets released from restrictions	<u>1,075,341</u>	<u>(2,301)</u>	<u>1,073,040</u>
Expenses:			
Program services	950,848	-	950,848
Administrative and general	181,715	-	181,715
Fundraising	<u>71,272</u>	<u>-</u>	<u>71,272</u>
Total expenses	<u>1,203,835</u>	<u>-</u>	<u>1,203,835</u>
Change in net assets	(128,494)	(2,301)	(130,795)
Net assets - beginning	<u>3,889,306</u>	<u>17,006</u>	<u>3,906,312</u>
NET ASSETS - ENDING	<u>\$ 3,760,812</u>	<u>\$ 14,705</u>	<u>\$ 3,775,517</u>

See independent accountant's review report and accompanying notes to financial statements.

TEEN CHALLENGE, INC.
STATEMENTS OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
General donations	\$ 689,357	\$ 30,000	\$ 719,357
Wills	62,316	-	62,316
Student generated support	139,938	-	139,938
Special events (net of expenses of \$39,078)	<u>35,262</u>	<u>-</u>	<u>35,262</u>
Total revenue and support	<u>926,873</u>	<u>30,000</u>	<u>956,873</u>
Other support:			
Interest and dividend income	109,353	-	109,353
Student housing reimbursements	2,795	-	2,795
Thriftstore income	7,622	-	7,622
Other income	<u>93</u>	<u>-</u>	<u>93</u>
Total other support	<u>119,863</u>	<u>-</u>	<u>119,863</u>
Total revenue and support and other support before net assets released from restrictions	1,046,736	30,000	1,076,736
Net assets released from restrictions	<u>24,543</u>	<u>(24,543)</u>	<u>-</u>
Total revenue and support, other support and net assets released from restrictions	<u>1,071,279</u>	<u>5,457</u>	<u>1,076,736</u>
Expenses:			
Program services	892,037	-	892,037
Administrative and general	189,278	-	189,278
Fundraising	<u>78,134</u>	<u>-</u>	<u>78,134</u>
Total expenses	<u>1,159,449</u>	<u>-</u>	<u>1,159,449</u>
Change in net assets	(88,170)	5,457	(82,713)
Net assets - beginning	<u>3,977,476</u>	<u>11,549</u>	<u>3,989,025</u>
NET ASSETS - ENDING	<u>\$ 3,889,306</u>	<u>\$ 17,006</u>	<u>\$ 3,906,312</u>

See independent accountant's review report and accompanying notes to financial statements.

TEEN CHALLENGE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating activities:		
Decrease in net assets	\$ <u>(130,795)</u>	\$ <u>(82,713)</u>
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	74,027	72,267
Donated equipment	-	(35,000)
Gain on sale of equipment	(1,407)	-
Changes in assets and liabilities:		
Prepaid expenses and other assets	(7,484)	(3,554)
Franchise fee	(15,000)	-
Contributions receivable	14,488	(14,359)
Other receivables	15,475	3,950
Accounts payable	(4,117)	4,937
Accrued expenses and other liabilities	<u>5,500</u>	<u>(101,513)</u>
Total adjustments	<u>81,482</u>	<u>(73,272)</u>
Net cash used in operating activities	<u>(49,313)</u>	<u>(155,985)</u>
Investing activities:		
Cash restricted for loan security	-	(50,000)
Purchases of property and equipment	(52,037)	(52,955)
Proceeds from the sale of equipment	<u>3,650</u>	<u>-</u>
Net cash used in investing activities	<u>(48,387)</u>	<u>(102,955)</u>
Financing activities:		
Proceeds from notes payable	-	50,000
Repayments of notes payable and capital lease obligation	<u>(18,931)</u>	<u>(17,239)</u>
Net cash provided by (used in) financing activities	<u>(18,931)</u>	<u>32,761</u>
Net increase (decrease) in cash and cash equivalents	(116,631)	(226,179)
Cash and cash equivalents - beginning	<u>1,030,182</u>	<u>1,256,361</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 913,551</u>	<u>\$ 1,030,182</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 6,725</u>	<u>\$ 7,952</u>
Non-cash investing and financing activities:		
Assets acquired through capital lease obligation	<u>\$ 19,652</u>	<u>\$ -</u>
Capital lease cancelled and equipment returned to lessor	<u>\$ 9,975</u>	<u>\$ -</u>

See independent accountant's review report and accompanying notes to financial statements.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the organization

Teen Challenge, Inc. (the "Organization") is a 501 (c)(3) nonprofit corporation established under the laws of the state of New York and is located in Brooklyn, New York. Incorporated in 1965, the mission of the Organization is to help individuals who have life-controlling addictions and initiate the discipleship process to the point where the individual can function as a productive Christian member of society. The Organization teaches a whole new way of living by addressing family relationships, work attitudes, self-image and esteem, peer pressure, addictions, social issues, community relationship, and a variety of other life skills. The Organization endeavors to help people become mentally sound, emotionally balanced, socially adjusted, physically well, and spiritually alive. The Organization is supported primarily through contributions from donors.

Financial statement presentation

The accompanying financial statements have been prepared utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP"). Under the guidance of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Income tax status

The Organization is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code") and comparable state tax laws, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2012, 2011, and 2010 remain subject to examination by the Internal Revenue Service.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash on deposit, money market account and certificates of deposit that are readily convertible into cash and purchased with original maturities of three months or less.

Property and equipment

Property and equipment, when purchased, are carried at cost. Donations of property and equipment are recorded at their estimated fair value at the date of donation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. When property and equipment are sold, or otherwise disposed of, the asset and related accumulated depreciation are relieved, and any gain or loss is included in operations.

Long-term investments

Long-term investments consist of certificates of deposit with original maturities of five years and are stated at cost. The Organization maintains their certificates of deposits with the Assemblies of God Loan Fund (the "AOG Loan Fund"), Church Extension Plan, and Heritage Investment Services Funds which all provide financing for capital expansion projects being undertaken by Assemblies of God ministries and institutions (see Note 2).

Use of estimates

The preparation of financial statements in conformity with GAAP 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.

Allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Designation of unrestricted net assets

It is the policy of the Board of Trustees (the "Board") of the Organization to review its plans for future property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such improvements and acquisitions.

Revenue recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. The Organization accounts for contributions as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose for the restrictions. Contributions receivable and promises to give represent amounts committed by donors that have not been received by the Organization. These amounts are recorded by the Organization at their net realizable value.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Contributions of non-cash assets are recorded at their fair values at the date received. Donations of non-cash assets without readily determinable fair values are not recognized by the Organization; instead, income from the sale of these items is recognized if and when they are sold. Contributions of services are recorded at their fair values in the period received if they (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Fair value measurement

FASB ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Under the new standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and, inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Advertising

Advertising costs are expensed as incurred and aggregated \$632 and \$1,430 for the years ended December 31, 2013 and 2012, respectively.

Subsequent events

In accordance with FASB ASC 855, *Subsequent Events*, the Organization has evaluated subsequent events through May 08, 2014, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2. CONCENTRATIONS OF CREDIT RISK

The Organization places its cash and cash equivalents, which may at times be in excess of federally insured limits, with major financial institutions and limits the amount of credit exposure with any one institution. The Organization has not experienced any losses in these accounts and feels that it is not exposed to any significant credit risk with regards to cash.

The Organization also places its certificates of deposit in accounts with financial institutions that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other federal or state authority or regulatory agency. The Organization has not experienced any losses in these accounts and feels that it is not exposed to any significant credit risk with regards to its certificates of deposit.

NOTE 3. CASH AND CASH EQUIVALENTS

At December 31, 2013 and 2012, cash and cash equivalents consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 2,000	\$ 2,250
Checking accounts	214,540	304,414
Cash - other	789	532
Certificates of deposit	550,000	550,000
Money market accounts - unit based	105,062	102,468
Money market accounts - other	<u>91,160</u>	<u>120,518</u>
Total	<u>\$ 963,551</u>	<u>\$ 1,080,182</u>

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 80,569	\$ 80,569
Buildings and improvements:		
416 Clinton Avenue	282,627	278,189
436 Clinton Avenue and 435 Vanderbilt Avenue	303,387	268,938
444 Clinton Avenue and 443 Vanderbilt Avenue	1,019,944	1,019,944
Furnishings and equipment	479,511	468,567
Automobiles	<u>159,759</u>	<u>164,759</u>
	2,325,797	2,280,966
Less: accumulated depreciation	<u>(1,476,905)</u>	<u>(1,417,514)</u>
Property and equipment, net	<u>\$ 848,892</u>	<u>\$ 863,452</u>

Depreciation expense was \$74,027 and \$72,267 for the years ended December 31, 2013 and 2012, respectively.

During the year ended 2013, the Organization sold a vehicle with a carrying value of \$4,208 for \$3,650 and disposed of equipment with a carrying value of \$8,013 which was acquired under a capital lease. The assets' carrying amounts, capital lease obligation and related accumulated depreciation have been eliminated accordingly.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 4. PROPERTY AND EQUIPMENT (CONTINUED)

Furnishings and equipment include assets acquired under capital leases with a cost of \$44,968 and \$47,174 at December 31, 2013 and 2012, respectively. Related amortization included in accumulated depreciation was \$24,094 and \$28,651 at December 31, 2013 and 2012, respectively. Capital leases are included as a component of furnishings and equipment. Amortization of assets under capital lease is included in depreciation expense.

Property and equipment in the amount of \$35,000 was donated to the Organization during the year ended December 31, 2012.

NOTE 5. BOARD-DESIGNATED FUNDS

In October 2010, the Organization entered into a contract to sell its property located at 380 Clinton Avenue and 381 Vanderbilt Avenue (the "Property") for \$3,800,000. The Organization also petitioned the Supreme Court of the state of New York (the "Court") to receive approval of the sale pursuant to section 511 of the New York State Not-For-Profit Corporation Law and section 12 of the New York State Religious Corporations Law. The petition outlined how the proceeds from the sale was going to be utilized by the Organization as determined by the Board. The Organization subsequently received approval from the Court on the sale of the Property and the use of the proceeds. On April 5, 2011, the Organization completed the transaction for the sale of the Property for \$3,800,000.

As of December 31, 2013 and 2012, amounts available under board-designated funds were as follows:

<u>Description</u>	<u>2013</u>	<u>2012</u>
Endowment (see Note 6)	\$ 2,000,000	\$ 2,000,000
Building renovation (a)	267,232	350,170
Purchase of staff house	250,000	250,000
Purchase of vehicles (b)	<u>60,000</u>	<u>60,000</u>
Total board-designated funds	<u>\$ 2,577,232</u>	<u>\$ 2,660,170</u>

(a) Funds were originally designated for window project and 444 renovation. In June 2012, the Board unanimously agreed to re-allocate the remaining funds to be used for the renovation of any building owned by the Organization.

(b) Funds were originally designated for the purchase of two vans. In April 2012, the Board unanimously agreed to re-allocate the funds to purchase any vehicles for use by the Organization.

In June 2012, the Board unanimously agreed to re-allocate the remaining funds of \$25,681 originally designated for Teen Challenge Worldwide Support to any any type of missionary support. These funds were completely utilized for their board designated purpose during 2012.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 6. BOARD DESIGNATED ENDOWMENT FUND

As of December 31, 2013 and 2012, the Board has designated \$2,000,000 of unrestricted net assets as a general endowment fund to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets in the accompanying statement of financial position as of December 31, 2013 and 2012. The Organization has a spending policy of appropriating each year any income earned by the endowment fund thus maintaining the principal value of the endowment fund until a decision can be made by the Board as to how to apportion the endowment fund. The endowment assets are invested in several certificates of deposit with the AOG Loan Fund, the Church Extension Plan and the Heritage Investment Service Fund which mature at various dates in 2016. The Organization has adopted an investment policy that attempts to maintain the principal over a period of five years while earning interest income. These investments are all considered long-term.

The Board must vote and approve by a 2/3 resolution in order for the endowment assets to be spent or to change its designation.

The composition of and changes in the board-designated endowment fund for the years ended December 31, 2013 and 2012, were as follows:

Board-designated endowment fund, January 1, 2012	\$ 2,000,000
Investment income	109,353
Amounts appropriated for expenditure	<u>(109,353)</u>
Board-designated endowment fund, December 31, 2012	2,000,000
Investment income	108,661
Amounts appropriated for expenditure	<u>(108,661)</u>
Board-designated endowment fund, December 31, 2013	<u>\$ 2,000,000</u>

NOTE 7. NOTES PAYABLE

Notes payable consisted of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Notes payable - vehicles (a)	1,756	8,776
Heritage Investment Fund Loan (b)	<u>47,918</u>	<u>49,613</u>
Total	<u>\$ 49,674</u>	<u>\$ 58,389</u>

(a) During 2009, the Organization entered into two notes payable to finance the purchase of two vehicles. The notes, which are collateralized by the underlying assets being financed, bear no interest. One note requires monthly installments of \$585 and matures in February 2014. The other note matured in January 2012 and required monthly installments of \$708.

(b) On May 23, 2012, the Organization entered into a \$50,000 secured loan with Heritage Investment Services Fund ("HISF") with a maturity date of April, 2042. The secured loan requires monthly principal and interest payments of \$308 and bears interest at 6.25% per annum. The secured loan is collateralized by \$50,000 held in a depository account with HISF.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 7. NOTES PAYABLE (CONTINUED)

As of December 31, 2013, future loan payments are summarized as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2014	\$ 2,475
2015	766
2016	815
2017	868
2018	924
Thereafter	<u>43,826</u>
	<u>\$ 49,674</u>

NOTE 8. COMMITMENTS AND CONTINGENCIES

Operating leases

At December 31, 2013, the Organization is obligated under a non-cancelable operating lease for office equipment, which expires in 2014. The future minimum lease payments required under their non-cancelable operating leases as of December 31, 2013, are \$615 in 2014.

Capital leases

The Organization leases certain office equipment under agreements that are classified as capital leases. The cost of the assets acquired under capital leases are included in the statement of financial position as "Property and equipment, net" (see Note 4).

The present value of future minimum lease payments required under the capital leases as of December 31, 2013, are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2014	\$ 9,378
2015	4,559
2016	4,559
2017	4,559
2018	<u>3,039</u>
Net minimum lease payments	26,094
Less: amount representing interest	<u>(3,019)</u>
Present value of minimum lease payments	<u>\$ 23,075</u>

Legal matters

The Organization is party to various claims and legal proceedings in the ordinary course of business. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the Organization's financial statements.

NOTE 9. RELATED-PARTY TRANSACTIONS

The Organization's President currently serves as the Director of Behold Ministries, Inc. ("Behold"), another religious ministry. During 2013 and 2012, Behold made contributions of \$82,488 and \$83,600, respectively, to the Organization.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 9. RELATED-PARTY TRANSACTIONS (CONTINUED)

During 2011, the Organization entered into a lease agreement for an apartment for use by its President. In September 2013, the lease expired and the Organization is now on a month to month lease agreement. The lease requires monthly payments of \$4,200.

During 2012, the Organization advanced certain employees \$5,300. During 2013, the Organization advanced an employee \$1,500. The advance bears no interest and is being repaid weekly through the employees' wages. As of December 31, 2013 and 2012, the Organization was due \$750 and \$9,012 which has been included in the accompanying statements of financial position in "Other receivables."

During 2010, the Executive Director stepped down from his position at the Organization and currently serves as the President of another religious ministry, Long Island Teen Challenge ("LITC"). During the year ended December 31, 2012, both the Organization and LITC paid for certain expenses on the other's behalf. At December 31, 2012, the Organization was due \$9,250, from LITC, which has been included in the statements of financial position in "Other receivables" and was repaid in 2013. The former Executive Director also serves as the senior pastor of a worship center, called the Freedom Chapel. During the years ended December 31, 2013 and 2012, the Organization made contributions totaling \$5,100 and \$1,610, respectively to the Freedom Chapel.

NOTE 10. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value are based on one or more of three valuation techniques identified in the tables below. The valuation techniques are as follows:

- (a) *Market approach*: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- (b) *Cost approach*: Amount that would be required to replace the service capacity of an asset (replacement cost); and
- (c) *Income approach*: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

The following tables summarize the Organization's assets and liabilities measured at fair value on a recurring basis, categorized by GAAP's valuation hierarchy as of December 31, 2013 and 2012:

Description	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at December 31, 2013	Valuation Technique
Cash equivalents:					
Money market account - unit based	\$ 105,062	\$ -	\$ -	\$ 105,062	(a)

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 10. FAIR VALUE MEASUREMENTS (CONTINUED)

<u>Description</u>	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at December 30, 2012	Valuation Technique
Cash equivalents:					
Money market account - unit based	\$ <u>102,468</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>102,468</u>	(a)

During the years ended December 31, 2013 and 2012, there were no transfers between levels of the fair value hierarchy.

Following is a description of the valuation methodologies used for the financial assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

Money market instruments are stated at cost, which approximates fair value, because the investments are liquid in nature.

The carrying values of cash, contributions receivable, other receivables, security deposit, accounts payable, accrued expenses and other liabilities approximate their estimated fair values due to the short-term nature of these instruments. The carrying values of capital leases payable and notes payable approximate fair value based on quoted market prices of similar instruments.

NOTE 11. RETIREMENT PLAN

In 1999, the Organization established a tax-deferred retirement plan for its full-time employees under the umbrella of the Assemblies of God Select Retirement Plan (the "Plan"). The Plan is intended to be a retirement income account program as described in Section 403(b) of the Code. The Plan is also intended to be a "church plan" within the meaning of Section 414(e) of the Code and Section 3(33) of the Employee Retirement Income Security Act of 1974 ("ERISA") and, as such, is exempt from the requirements of ERISA. During 2010, the Board suspended the plan indefinitely. No contributions to the Plan have been made during the years ended December 31, 2013 or 2012.

NOTE 12. TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2013 and 2012, \$14,705 and \$17,006, were available to be used in accordance with the provisions of the grant received from Hope of New York.

During the years ended December 31, 2013 and 2012, net assets released from donor restrictions either by incurring expenses satisfying the restricted purposes or by the donor's removal of such restrictions, are as follows:

	<u>2013</u>	<u>2012</u>
Hope for New York:		
Kitchen and health related	\$ <u>32,301</u>	\$ <u>24,543</u>

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 13. FRANCHISE AGREEMENT

During the year ended 2013, the Organization entered into a franchise agreement (the "Agreement") with The Way to Recovery, another religious non-profit organization. The Agreement gives the Organization the right to sell trademarked drug testing devices along with their related programming manuals as well as use of The Way to Recovery's license to operate a drug testing facility. The facility is intended to operate by appointment only and act as an outreach program of the Organization in the local community.

The Organization paid \$15,000 for the franchise. Additionally, the Organization is obligated under the agreement to set up the center in a separately designated location on its premises, as defined, paying for and installing a point of sale system, paying for national marketing expenses of a minimum of \$1,200 per year, paying for local marketing equal to 1% of gross annual sales, as defined, and for paying a 5% royalty fee to The Way of Recovery on gross sales, as defined. The Agreement will expire on the tenth anniversary of the testing facility's opening date and is subject to various renewal terms. As of December 31, 2013, there was no activity in the outreach program other than the initial franchise fee. The Organization plans to open the testing facility in 2014.

SUPPLEMENTARY INFORMATION

TEEN CHALLENGE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH SUMMARIZED INFORMATION FOR 2012)

	2013			2012	
	Program Services	Administrative Services	Fundraising	Total	Total
Salaries and wages	\$ 242,135	\$ 87,665	\$ 30,190	\$ 359,990	\$ 361,209
Community outreach	115,558	-	-	115,558	57,604
Light, heat and power	103,354	11,484	-	114,838	102,110
Insurance	71,243	3,750	-	74,993	80,542
Professional fees	30,900	27,950	-	58,850	30,348
Postage	44,394	5,692	6,830	56,916	53,406
Food	51,651	-	-	51,651	44,485
Vehicle expenses	45,201	-	-	45,201	30,991
Office supplies	30,331	2,638	-	32,969	30,064
Repairs and maintenance	32,491	-	-	32,491	57,626
Telephone	24,134	2,682	-	26,816	15,498
Public relations	-	-	26,488	26,488	32,012
School supplies and expenses	22,137	-	-	22,137	16,467
Payroll taxes	13,646	4,941	1,701	20,288	20,485
Travel and transportation	13,562	4,994	-	18,556	19,217
Employees' medical plans	11,287	5,294	1,518	18,099	51,567
Benevolence and honorariums	9,968	3,215	-	13,183	29,571
Hospitality	9,171	-	-	9,171	8,535
Recreation expense	7,573	-	-	7,573	6,138
Interest	6,389	336	-	6,725	7,952
Data processing services	4,234	1,992	-	6,226	11,125
Bank and credit card fees	-	766	3,913	4,679	3,834
Computer-related expenses	1,152	768	-	1,920	437
Bookstore expenses	1,813	-	-	1,813	9,259
Dues and subscriptions	1,523	-	-	1,523	2,041
Advertising and promotion	-	-	632	632	1,430
Thriftstore expenses	-	522	-	522	769
Leased office equipment	-	-	-	-	2,460
Total expenses before depreciation	893,847	164,689	71,272	1,129,808	1,087,182
Depreciation	57,001	17,026	-	74,027	72,267
TOTAL EXPENSES	\$ 950,848	\$ 181,715	\$ 71,272	\$ 1,203,835	\$ 1,159,449

See independent accountants' review report.