

TEEN CHALLENGE, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

**TEEN CHALLENGE, INC.
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

Table of Contents

	<u>Page</u>
Independent Accountant's Review Report	1
Financial Statements	
Statements of financial position	2
Statements of activities	3 - 4
Statements of functional expenses	5 - 6
Statements of cash flows	7
Notes to financial statements	8 - 20

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Teen Challenge, Inc.
Brooklyn, New York

We have reviewed the accompanying financial statements of Teen Challenge, Inc. (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements. 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'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 due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.



CERTIFIED PUBLIC ACCOUNTANTS

White Plains, New York
August 14, 2020

TEEN CHALLENGE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 151,213	\$ 178,376
Contributions receivable	18,686	79,149
Related-party advances	-	500
Escrow account	3,500,000	-
Prepaid expenses and other assets	44,048	67,239
Temporarily restricted donations receivable	25,000	25,000
Property and equipment, net	1,289,754	1,519,633
Security deposits	1,000	20,500
Investments, at fair value	<u>13,987,305</u>	<u>1,271,464</u>
TOTAL ASSETS	<u>\$ 19,017,006</u>	<u>\$ 3,161,861</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 24,772	\$ 4,000
Accrued expenses and other liabilities	16,625	64,962
Capital lease obligations	214,148	89,407
Conditional donation	25,000	25,000
Other liabilities	30,410	16,959
Note payable	<u>20,068</u>	<u>-</u>
Total liabilities	<u>331,023</u>	<u>200,328</u>
Net assets:		
Without donor restrictions:		
Designated by the Board	16,203,350	-
Undesignated	<u>2,462,323</u>	<u>2,947,978</u>
	18,665,673	2,947,978
With donor restrictions	<u>20,310</u>	<u>13,555</u>
Total net assets	<u>18,685,983</u>	<u>2,961,533</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,017,006</u>	<u>\$ 3,161,861</u>

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

TEEN CHALLENGE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support and gains:			
General donations	\$ 640,616	\$ 20,420	\$ 661,036
Wills	64,229	-	64,229
Student-generated support	107,346	-	107,346
Store front income	287,988	-	287,988
Special events (net of expenses of \$5,705)	27,372	-	27,372
Interest and dividend income	203,722	-	203,722
Thrift store income	7,683	-	7,683
Net assets released from restrictions	13,665	(13,665)	-
Total revenue, support and gains	1,352,621	6,755	1,359,376
Expenses:			
Program services	1,226,148	-	1,226,148
Administrative and general	281,172	-	281,172
Fundraising	29,121	-	29,121
Total expenses	1,536,441	-	1,536,441
Other income (expense):			
Gain on sale of building	16,460,884	-	16,460,884
Transition expenses:			
Applicable to sale of building	(265,288)	-	(265,288)
Other expenses	(294,081)	-	(294,081)
Other income, net	15,901,515	-	15,901,515
Change in net assets	15,717,695	6,755	15,724,450
Net assets - beginning	2,947,978	13,555	2,961,533
NET ASSETS - ENDING	\$ 18,665,673	\$ 20,310	\$ 18,685,983

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

TEEN CHALLENGE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support and gains:			
General donations	\$ 761,662	\$ 105,978	\$ 867,640
Wills	5,580	-	5,580
Student-generated support	159,464	-	159,464
Store front income	369,591	-	369,591
Special events (net of expenses of \$113,403)	12,050	-	12,050
Interest and dividend income	69,099	-	69,099
Thrift store income	35,792	-	35,792
Other income	1,190	-	1,190
Net assets released from restrictions	112,557	(112,557)	-
Total revenue, support and gains	1,526,985	(6,579)	1,520,406
Expenses:			
Program services	1,463,968	-	1,463,968
Administrative and general	266,355	-	266,355
Fundraising	27,004	-	27,004
Total expenses	1,757,327	-	1,757,327
Change in net assets	(230,342)	(6,579)	(236,921)
Net assets - beginning	3,178,320	20,134	3,198,454
NET ASSETS - ENDING	\$ 2,947,978	\$ 13,555	\$ 2,961,533

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

TEEN CHALLENGE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Program Services</u>	<u>Administrative Services</u>	<u>Fundraising</u>	<u>Special Event Direct Costs</u>	<u>Total</u>
Salaries and wages	\$ 314,971	\$ 108,124	\$ -	\$ -	\$ 423,095
Food	93,027	-	-	-	93,027
Depreciation and amortization	71,224	21,275	-	-	92,499
Light, heat and power	79,044	8,783	-	-	87,827
Benevolence and honorariums	83,435	-	-	-	83,435
Employees' medical plans	60,542	21,271	-	-	81,813
Office supplies	74,239	6,456	-	5,582	86,277
Repairs and maintenance	74,437	-	-	-	74,437
Insurance	63,445	3,339	-	-	66,784
Community outreach	64,924	-	-	-	64,924
Postage	33,983	12,748	5,228	-	51,959
Bookstore expenses	41,605	-	-	-	41,605
Vehicle expenses	37,770	-	-	-	37,770
Travel and transportation	36,015	-	-	-	36,015
Bookkeeping services	-	33,609	-	-	33,609
Telephone	26,792	2,977	-	-	29,769
Payroll taxes	21,044	7,394	-	-	28,438
Loss on disposal of other assets	-	23,037	-	-	23,037
Fundraising expenses	-	-	22,092	-	22,092
Hospitality	19,142	-	-	123	19,265
Computer-related expenses	6,591	9,886	-	-	16,477
Bank and credit card fees	-	12,870	-	-	12,870
Recreation expense	10,736	-	-	-	10,736
Data processing services	5,416	2,548	-	-	7,964
Professional fees	-	6,550	-	-	6,550
Dues and subscriptions	4,787	-	-	-	4,787
Interest	2,979	157	-	-	3,136
Advertising and promotion	-	-	1,801	-	1,801
Thrift store expenses	-	148	-	-	148
	<u>1,226,148</u>	<u>281,172</u>	<u>29,121</u>	<u>5,705</u>	<u>1,542,146</u>
Special event direct costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,705)</u>	<u>(5,705)</u>
TOTAL EXPENSES BY FUNCTION	<u>\$ 1,226,148</u>	<u>\$ 281,172</u>	<u>\$ 29,121</u>	<u>\$ -</u>	<u>\$ 1,536,441</u>

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

TEEN CHALLENGE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>	<u>Administrative Services</u>	<u>Fundraising</u>	<u>Special Event Direct Costs</u>	<u>Total</u>
Salaries and wages	\$ 290,563	\$ 106,540	\$ -	\$ -	\$ 397,103
Food	310,874	-	-	-	310,874
Light, heat and power	106,833	11,870	-	-	118,703
Fundraising expenses	-	-	16,796	-	16,796
Rent expense	85,562	-	-	-	85,562
Depreciation and amortization	63,355	18,924	-	-	82,279
Postage	54,849	18,111	8,438	-	81,398
Benevolence and honorariums	79,546	-	-	4,100	83,646
Employees' medical plans	56,685	20,966	-	-	77,651
Office supplies	69,004	6,000	-	3,254	78,258
Facility rental	-	-	-	74,809	74,809
Insurance	68,790	3,620	-	-	72,410
Professional fees	-	55,333	-	-	55,333
Community outreach	51,973	-	-	-	51,973
Vehicle expenses	38,718	-	-	886	39,604
Bookstore expenses	36,535	-	-	-	36,535
Repairs and maintenance	36,203	-	-	-	36,203
Telephone	26,175	2,908	-	-	29,083
Banquet expenses	-	-	-	27,058	27,058
Travel and transportation	25,719	-	-	880	26,599
Payroll taxes	18,564	6,866	-	-	25,430
Hospitality	14,718	-	-	2,136	16,854
Data processing services	8,527	4,013	-	-	12,540
Recreation expense	10,833	-	-	-	10,833
Computer-related expenses	3,054	4,582	-	-	7,636
Bank and credit card fees	-	5,085	-	-	5,085
Dues and subscriptions	4,624	-	-	-	4,624
Interest	2,264	119	-	-	2,383
Advertising and promotion	-	-	1,770	280	2,050
Thrift store expenses	-	1,418	-	-	1,418
	<u>1,463,968</u>	<u>266,355</u>	<u>27,004</u>	<u>113,403</u>	<u>1,870,730</u>
Special event direct costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>(113,403)</u>	<u>(113,403)</u>
TOTAL EXPENSES BY FUNCTION	<u>\$ 1,463,968</u>	<u>\$ 266,355</u>	<u>\$ 27,004</u>	<u>\$ -</u>	<u>\$ 1,757,327</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 15,724,450	\$ (236,921)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	92,499	82,279
Gain on sale of building	(16,460,884)	-
Loss on disposal of other assets	23,037	-
Changes in operating assets and liabilities:		
Contributions receivable	60,463	(22,250)
Temporarily restricted donations receivable	-	6,892
Security deposits	19,500	-
Related-party advances	500	868
Prepaid expenses and other assets	23,191	(7,778)
Accounts payable	20,772	(9,248)
Accrued expenses and other liabilities	<u>(34,886)</u>	<u>70,521</u>
Net cash used in financing activities	<u>(531,358)</u>	<u>(115,637)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(275,774)	(741,160)
Proceeds from sales of property and equipment	17,000,000	-
Withdrawal of certificate of deposit	-	926,536
Purchase of long-term investments	<u>(12,715,841)</u>	<u>-</u>
Net cash provided by investing activities	<u>4,008,385</u>	<u>185,376</u>
Cash flows from financing activities:		
Proceeds from note payable	22,867	-
Payments on capital lease payable	(24,258)	-
Principal payments on note payable	<u>(2,799)</u>	<u>(22,313)</u>
Net cash used in financing activities	<u>(4,190)</u>	<u>(22,313)</u>
Net increase (decrease) in cash and cash equivalents	3,472,837	47,426
Cash and cash equivalents - beginning	<u>178,376</u>	<u>130,950</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,651,213</u>	<u>\$ 178,376</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 3,136</u>	<u>\$ 2,383</u>
Supplemental schedules for non-cash investing and financing activity:		
Equipment financed through capital lease arrangement	<u>\$ 135,534</u>	<u>\$ -</u>

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

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Teen Challenge, Inc. (the "Organization") qualifies as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code ("IRC") and under the laws of the state of New York. The Organization was incorporated in 1965 in Brooklyn, New York, dedicated to serving its mission to help individuals overcome 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.

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. It is the policy of the board of directors (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.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of December 31, 2019 and 2018, there were no perpetual donor-imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with U.S. 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.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash on deposit and money market accounts.

Property and Equipment

The Organization records property and equipment additions at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

The useful lives, by asset group of the property and equipment, are as follows:

Building and improvements	15 - 39 years
Furniture and fixtures	7 years
Equipment	5 years
Automobiles	5 years

When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Investments

Investments are reported at fair value. Fair value is 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. See Note 3 for discussion of fair value measurements.

Investment transactions are recorded on a trade-date basis. Investment earnings are reported in the statements of activities as an increase in net assets without donor restrictions unless otherwise specified by donors. Investment earnings consist of interest and dividend income, realized and unrealized gains and losses.

Revenue and Revenue Recognition

Store front revenue is recognized when earned. Program service fees and grant payments received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions and donations are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and 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.

Conditional Donations

Conditional donations are recognized when substantially all of the donor-imposed conditions have been met. Any assets contributed before the conditions are substantially met are accounted for as a liability.

Income Taxes

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

Functional Allocation of Expenses

The costs of programs and supporting services activities have been summarized on a functional basis in the accompanying statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributable to a specific functional area are reported as expenses to those functional areas. A portion of general and administrative costs that benefit multiple functional areas has been allocated across programs and other supporting services based on management's best estimate, considering factors such as time and effort and proportion of employee time spent on programs and other supporting services to total organizational time spent.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments and Credit Risk (Continued)

To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of its mission. Investments are made by diversified investment managers whose performance is monitored by the Organization and the investment committee of the Board. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Recently Adopted Accounting Pronouncements

Contributions

In November 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance for determining whether a transaction should be accounted for as a contribution or an exchange transaction, and whether a contribution is conditional or unconditional. This ASU is effective for years beginning after December 15, 2018. The Organization's adoption of this standard resulted in no significant change to the financial statements.

Statement of Cash Flows

The Organization has adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230)* ("ASU 2016-18"). ASU 2016-18 requires that a statement of cash flows explain the change during the period in cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents to reconcile the beginning-of-period and end-of-period amounts shown on the statement of cash flows.

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position that sum to the total of such amounts shown on the statements of cash flows as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 151,213	\$ 178,376
Escrow account	<u>3,500,000</u>	<u>-</u>
Total cash and restricted cash shown in the statements of cash flows	<u>\$ 3,651,213</u>	<u>\$ 178,376</u>

Escrow account represents funds that are retained by the order of the NYS Attorney General - Charities Bureau (the "Court") from the sale of 444 Clinton (see Note 6). The Court mandated that these funds be held until a signed construction contract was obtained for new office space. As of December 31, 2019, no such contract had been obtained.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued But Not Yet Effective Accounting Pronouncements

Revenue Recognition

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("Topic 606"), as amended (commonly referred to as "ASC 606"), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. ASC 606 replaces most existing revenue recognition standards in U.S. GAAP, including industry-specific standards, when it becomes effective. For annual reporting periods, this standard is effective for the Organization on January 1, 2019, and for interim periods within annual periods that begin one year later.

In June 2020, FASB published a new accounting standard that grants a one-year delay in the adoption of ASC 606. The Organization elected to defer adoption of ASC 606 to the year ending December 31, 2020.

Leases

In February 2016, FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). This update requires all leases with terms greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing arrangements. FASB also issued ASU No. 2018-10, *Codification Improvements to Topic 842* and ASU No. 2018-11, *Leases: Targeted Improvements*, in July 2018. These updates provide narrow amendments to clarify how to apply certain aspects of the new leases standard and options regarding transition. This option will not require prior periods to be restated at the adoption date. ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2021, and the Organization is currently evaluating the effect on its financial statements and related disclosures.

Reclassifications

Certain items in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Subsequent Events

The Organization has evaluated subsequent events through August 14, 2020, the date the financial statements were available to be issued. Except for the matter described in Note 13, there were no material subsequent events that required recognition or additional disclosure in the financial statements.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2. LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets as of December 31, 2019 and 2018:

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents:		
Cash on hand	\$ 3,000	\$ 3,000
Checking accounts	147,454	165,106
Cash - other	-	1
Money market accounts	<u>760</u>	<u>10,270</u>
Total cash and cash equivalents	151,214	178,377
Contributions receivable	18,686	79,149
Investments, at fair value	<u>13,987,305</u>	<u>1,271,464</u>
Financial assets available to meet general expenditures	<u>14,157,205</u>	<u>1,528,990</u>
Less amounts not available to be used in the next 12 months:		
Certificates of deposit with maturity dates in excess of 12 months	2,377,985	1,271,464
Fixed income securities with maturity dates in excess of 12 months	<u>1,436,841</u>	<u>-</u>
Total financial assets not available for operations in the next 12 months	<u>3,814,826</u>	<u>1,271,464</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 10,342,379</u>	<u>\$ 257,526</u>

The Organization'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 long-term investments.

NOTE 3. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Organization reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3. FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to its assessment of the quality, risk, or liquidity profile of the asset or liability.

The following table presents investments measured at fair value on a recurring basis at December 31, 2019 and 2018:

	Total at December 31, 2019	Level 1	Level 2	Level 3
Assets:				
Certificates of deposit	\$ 2,377,985	\$ 2,377,985	-	\$ -
Cash and money market funds (at cost)	3,523,287	3,523,287	-	-
Real estate funds	3,566	3,566	-	-
Global equity mutual funds	2,318,388	2,318,388	-	-
Fixed income:				
U.S. government obligations	704,555	704,555	-	-
Corporate bonds	1,114,953	1,114,953	-	-
Municipal bonds	3,944,571	3,944,571	-	-
	<u>\$ 13,987,305</u>	<u>\$ 13,987,305</u>	<u>\$ -</u>	<u>\$ -</u>
	Total at December 31, 2018	Level 1	Level 2	Level 3
Assets:				
Certificates of deposit	<u>\$ 1,271,464</u>	<u>\$ 1,271,464</u>	<u>\$ -</u>	<u>\$ -</u>

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3. FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

During the year ended December 31, 2019, there were no transfers between levels of the fair value hierarchy. Following is a description of the valuation methodologies used for assets at fair value:

Certificates of Deposit – Certificates of deposit are valued at cost plus interest, which approximates the fair value.

Global Equity Mutual Funds – Funds focused on private equity investments primarily in foreign markets, including emerging markets.

Real Estate Funds – Funds focused on real estate assets primarily located in the United States. These investments are not redeemable. Instead, distributions are received through the liquidation of the underlying assets in the fund. The terms of these investments range from two to ten years.

The method used above to determine fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, while management believes the valuation method is appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Financial instruments involve, to varying degrees, elements of market risk and credit risk in excess of the amounts recorded on the statement of financial position. For the Organization, market risk represents the potential loss due to the decrease in the value of financial instruments; credit risk represents the maximum potential loss due to possible nonperformance of contract terms by obligors and counterparties.

NOTE 4. 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 investments 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 investments.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 283,509	\$ 339,078
Buildings and improvements:		
416 Clinton Avenue	185,339	327,327
436 Clinton Avenue and 435 Vanderbilt Avenue	-	305,935
444 Clinton Avenue and 443 Vanderbilt Avenue	-	1,022,844
Staff house	482,651	482,651
Furnishings and equipment	175,121	541,188
Automobiles	214,358	233,186
Construction in progress	<u>237,280</u>	<u>-</u>
	1,578,258	3,252,209
Less: accumulated depreciation and amortization	<u>288,504</u>	<u>1,732,576</u>
	<u>\$ 1,289,754</u>	<u>\$ 1,519,633</u>

Depreciation and amortization expense totaled \$92,499 and \$82,279 for the years ended December 31, 2019 and 2018, respectively.

Furnishings and equipment and automobiles include assets acquired under capital leases with a cost of \$297,371 and \$187,939 at December 31, 2019 and 2018, respectively. Related amortization included in accumulated depreciation was \$109,979 and \$98,746 at December 31, 2019 and 2018, respectively. Capital leases are included as a component of furnishings and equipment and automobiles (see Note 8). Amortization of assets under capital lease is included in depreciation and amortization expense.

NOTE 6. SALE OF BUILDING

On May 25, 2018, the Organization entered into a contract with 444 Clinton LLC for the sale of the land and building located at 444 Clinton Avenue ("444 Clinton") for \$17,000,000. The Organization petitioned the Court of the NYS Attorney General - Charities Bureau (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 would be utilized by the Organization as determined by the Board (see Note 9). The Organization received approval from the Court for the sale of the property and the use of proceeds on January 2, 2019 (the "Court's Approval"). The closing subsequently occurred on June 8, 2019. Additionally, the Court's Approval states \$3,500,000 shall remain in an escrow account until further notice by the Court for purposes of building renovation. Accordingly, \$3,500,000 is recorded in "Escrow account" in the accompanying statement of financial position at December 31, 2019.

In connection with the sale of 444 Clinton, the Organization recognized a gain of \$16,460,884 (exclusive of legal fees of approximately \$265,000 included in transition expenses), which is included in the accompanying statement of activities for the year ended December 31, 2019. In addition, the Organization incurred certain legal and professional fees to facilitate the closing as well as fees for temporary office space while relocating to permanent office space (the "Transition expenses"). For the year ended

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6. SALE OF BUILDING (CONTINUED)

December 31, 2019, Transition expenses totaled \$559,369 and were comprised of the following:

Applicable to sale of building:	
Professional fees related to sale of 444 Clinton	\$ <u>265,288</u>
Other expenses:	
Rent - Eddy Farms	147,592
Rent - 388 Clinton Ave.	116,941
Rent - Westbrooksville, NY	<u>29,548</u>
Total other expenses	<u>294,081</u>
Total Transition expenses	\$ <u><u>559,369</u></u>

NOTE 7. CONDITIONAL PROMISES TO GIVE

In 2016, the Organization received a conditional promise to give in the amount of \$25,000 relating to construction of a library and related signage to be displayed at the library. As of December 31, 2019, the library had not been completed and the conditions were not met. Conditional promises to give are included in the accompanying statements of financial position as follows:

	<u>2019</u>	<u>2018</u>
Temporarily restricted donations receivable	\$ <u>25,000</u>	\$ <u>25,000</u>

NOTE 8. LEASES

The Organization leases vehicles and certain office equipment under agreements that are classified as capital leases. The cost of the assets acquired under capital leases are included in the accompanying statements of financial position as "Property and equipment, net" (see Note 5).

At December 31, 2019, the Organization is obligated under non-cancelable operating leases for equipment, which expire in 2022.

Future minimum annual lease payments at December 31, 2019, are as follows:

<u>Year Ending December 31:</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2020	\$ 62,754	\$ 2,071
2021	62,754	2,071
2022	45,695	1,380
2023	35,608	-
2024	<u>28,133</u>	<u>-</u>
Total minimum lease payments	234,944	\$ <u>5,522</u>
Less: amount representing interest	<u>20,796</u>	
Capital lease obligations	\$ <u><u>214,148</u></u>	

Rent expense for the years ended December 31, 2019 and 2018, totaled \$2,071 and \$85,562, respectively.

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9. NET ASSETS DESIGNATED BY THE BOARD

As of December 31, 2019 and 2018, net assets available under Board-designated funds were as follows:

<u>Description</u>	<u>2019</u>	<u>2018</u>
Endowment	\$ 11,000,000	\$ -
Building renovations - 416 Clinton	4,762,720	-
Transition costs	<u>440,630</u>	<u>-</u>
Total net assets designated by the Board	<u>\$ 16,203,350</u>	<u>\$ -</u>

Designated by the Board for Endowment

At January 1, 2018, the Organization had \$2,000,000 of net assets without donor restrictions designated as a general endowment fund to support the mission of the Organization. The Organization has a spending policy of appropriating each year's 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 Board must vote and approve by a 2/3 resolution in order for the endowment assets to be spent or to change their designation. During 2018, the Board resolved to release a total of \$2,000,000 from the Board-designated endowment to general funds for the purchase of a staff house and general operations.

During the year ended December 31, 2019, the Board designated \$11,000,000 of the proceeds received from the sale of 444 Clinton (see Note 6) as a general endowment fund to generate income that would support the mission of the Organization and help cover operating expenses. Since the endowment resulted from an internal designation and is without donor restrictions, it is classified and reported as net assets without donor restrictions in the accompanying statements of financial position. The endowment assets are invested in mutual funds and fixed income securities held by various financial institutions.

The composition of and changes in the Board-designated endowment fund for the years ended December 31, 2019 and 2018, were as follows:

Designated by the Board for endowment - January 1, 2018	\$ 2,000,000
Investment income	69,099
Released from restrictions	(2,000,000)
Amounts approved for expenditure	<u>(69,099)</u>
Designated by the Board for endowment - December 31, 2018	-
Amounts designated by Board for endowment	11,000,000
Investment income	203,723
Amounts approved for expenditure	<u>(203,723)</u>
Designated by the Board for endowment - December 31, 2019	<u>\$ 11,000,000</u>

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 10. RETIREMENT PLAN

In 1999, the Organization established a tax-deferred retirement plan 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 IRC Section 403(b) covering substantially all full-time employees. The Plan is also intended to be a "church plan" within the meaning of Section 414(e) of the IRC 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 were made during the years ended December 31, 2019 and 2018.

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2019 and 2018, \$20,310 and \$13,555, respectively, were available to be used in accordance with the provisions of several grants received.

During the years ended December 31, 2019 and 2018, 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>2019</u>	<u>2018</u>
United Way:		
Purchase of food	\$ -	\$ 20,866
Hope for New York:		
Kitchen and health related	13,665	73,242
NYC Human Resources Administration:		
Food expenses	<u>-</u>	<u>18,449</u>
Total	<u>\$ 13,665</u>	<u>\$ 112,557</u>

NOTE 12. RELATED-PARTY TRANSACTIONS

The Organization's president currently serves as the director of Behold Ministries, Inc. ("Behold"), another religious ministry. During the years ended December 31, 2019 and 2018, the Organization made contributions of \$1,000 and \$5,300, respectively, to Behold.

The Organization's former vice president served as the executive director of Long Island Teen Challenge ("LITC"), an affiliated religious ministry. During the years ended December 31, 2019 and 2018, both the Organization and LITC made advances to one another. There were no amounts due to or from LITC to the Organization as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the Organization was due \$- and \$500 from related parties, respectively, which has been included in the accompanying statements of financial position as "Related-party advances."

See independent accountant's review report.

TEEN CHALLENGE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 13. SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the novel coronavirus ("COVID-19") a to constitute a "Public Health Emergency of International Concern." As a result, economic uncertainties have arisen which are likely to negatively impact support and revenue. Other financial impacts could occur though such potential impact is unknown at this time. No adjustments or provisions were made in these financial statements related to COVID-19.

On June 8, 2020, the Organization received loan proceeds totaling \$112,873 under the Paycheck Protection Program (the "PPP"). The PPP, which was established as part of the Coronavirus Aid, Relief and Economic Security Act, provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loan and accrued interest, or a portion thereof, may be forgiven after 24 weeks so long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent, mortgage, interest and utilities, and maintains its payroll levels, as defined by the PPP. At least 60% of the loan proceeds must be spent on payroll costs, as defined by the PPP for the loan to be eligible to be forgiven.

The PPP loan matures two years from the date of the first disbursement of proceeds to the Organization (the "PPP Loan Date") and accrues interest at a fixed rate of 1%. Payments are deferred for the first six months and payable in eighteen (18) equal consecutive monthly installments of principal and interest commencing on the seventh-month anniversary of the PPP Loan Date.

The Organization currently intends to use the proceeds for purposes consistent with the PPP, however, there can be no assurances that the Organization will ultimately meet the conditions for forgiveness of the loan or that the Organization will not take actions that could cause the Organization to be ineligible for forgiveness of the loan, in whole or in part.