

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

FAIR CHANCE

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fair Chance
Washington, D.C.

We have audited the accompanying financial statements of Fair Chance, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fair Chance as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

December 27, 2018

FAIR CHANCE

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 598,254	\$ 562,291
Grants and contributions receivable	339,001	202,423
Prepaid expenses	<u>25,659</u>	<u>19,502</u>
Total current assets	<u>962,914</u>	<u>784,216</u>
FIXED ASSETS		
Furniture, fixtures and equipment	48,209	48,209
Leasehold improvements	<u>3,895</u>	<u>3,895</u>
	52,104	52,104
Less: Accumulated depreciation and amortization	<u>(46,455)</u>	<u>(39,665)</u>
Net fixed assets	<u>5,649</u>	<u>12,439</u>
OTHER ASSETS		
Grants and contributions receivable, net of current portion	-	75,000
Deposits	<u>15,890</u>	<u>15,890</u>
Total other assets	<u>15,890</u>	<u>90,890</u>
TOTAL ASSETS	<u>\$ 984,453</u>	<u>\$ 887,545</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 33,892	\$ 29,087
Deferred rent	<u>-</u>	<u>1,211</u>
Total current liabilities	<u>33,892</u>	<u>30,298</u>
LONG-TERM LIABILITIES		
Deferred rent, non-current	<u>4,786</u>	<u>-</u>
Total liabilities	<u>38,678</u>	<u>30,298</u>
NET ASSETS		
Unrestricted:		
Undesignated	545,775	407,247
Board designated reserve	<u>300,000</u>	<u>300,000</u>
Total unrestricted net assets	<u>845,775</u>	<u>707,247</u>
Temporarily restricted	<u>100,000</u>	<u>150,000</u>
Total net assets	<u>945,775</u>	<u>857,247</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 984,453</u>	<u>\$ 887,545</u>

See accompanying notes to financial statements.

FAIR CHANCE

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Foundation grants	\$ 130,250	\$ -	\$ 130,250
Individual contributions	46,496	-	46,496
Corporate contributions	744,700	-	744,700
Fair Chance Fund	230,000	-	230,000
Government funding	20,000	-	20,000
Net assets released from donor restrictions	50,000	(50,000)	-
Total contributions	1,221,446	(50,000)	1,171,446
Special events revenue	501,387	-	501,387
Special events expenses	(129,797)	-	(129,797)
Special events, in-kind contribution expense	(30,457)	-	(30,457)
Special events revenue net	341,133	-	341,133
In-kind contributions	38,234	-	38,234
Interest (loss) income	1,837	-	1,837
Total support and revenue	1,602,650	(50,000)	1,552,650
EXPENSES			
Program Services	1,112,918	-	1,112,918
Management and General	174,416	-	174,416
Fundraising	176,788	-	176,788
Total expenses	1,464,122	-	1,464,122
Changes in net assets	138,528	(50,000)	88,528
Net assets at beginning of year	707,247	150,000	857,247
Reclassification of net assets	-	-	-
NET ASSETS AT END OF YEAR	\$ 845,775	\$ 100,000	\$ 945,775

2016		
Unrestricted	Temporarily Restricted	Total
\$ 763,818	\$ -	\$ 763,818
49,821	-	49,821
77,500	-	77,500
249,638	-	249,638
-	-	-
<u>156,250</u>	<u>(156,250)</u>	<u>-</u>
<u>1,297,027</u>	<u>(156,250)</u>	<u>1,140,777</u>
448,775	-	498,655
(70,334)	-	(70,334)
-	-	-
<u>378,441</u>	<u>-</u>	<u>378,441</u>
62,180	-	62,180
<u>(4,359)</u>	<u>-</u>	<u>(4,359)</u>
<u>1,733,289</u>	<u>(156,250)</u>	<u>1,577,039</u>
1,093,328	-	1,093,328
175,531	-	175,531
<u>175,456</u>	<u>-</u>	<u>175,456</u>
<u>1,444,315</u>	<u>-</u>	<u>1,444,315</u>
288,974	(156,250)	132,724
423,273	301,250	724,523
<u>(5,000)</u>	<u>5,000</u>	<u>-</u>
<u>\$ 707,247</u>	<u>\$ 150,000</u>	<u>\$ 857,247</u>

See accompanying notes to financial statements.

FAIR CHANCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 88,528	\$ 132,724
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,790	7,786
Donated securities	-	(24,638)
Deferred rent	3,575	(11,588)
(Increase) decrease in:		
Grants and contributions receivable	(61,578)	48,309
Prepaid expenses	(6,157)	(8,784)
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>4,805</u>	<u>(75,835)</u>
Net cash provided by operating activities	<u>35,963</u>	<u>67,974</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of donated securities	<u>-</u>	<u>24,638</u>
Net cash provided by investing activities	<u>-</u>	<u>24,638</u>
Net increase in cash and cash equivalents	35,963	92,612
Cash and cash equivalents at beginning of year	<u>562,291</u>	<u>469,679</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 598,254</u>	<u>\$ 562,291</u>

FAIR CHANCE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Fair Chance is a non-profit organization, incorporated on May 20, 2003, under the laws of the District of Columbia. The primary purpose of Fair Chance is to provide support and services to community-based non-profit organizations serving children living in the District of Columbia.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

Fair Chance considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of \$250,000. At times during the year, Fair Chance maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Grants and contributions receivable -

Grants and contributions receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Grants and contributions receivable expected to be collected in the current year are recorded at their net realizable value, which approximates fair value. All pledges receivable are considered by management to be fully collectible.

Fixed assets -

Fixed assets with an acquisition value of \$1,000 or more are capitalized and stated at cost in the accompanying financial statements. Furniture, fixtures and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. Maintenance and repairs and fixed assets with an acquisition value of less than \$1,000 are recorded as expenses as incurred.

Income taxes -

Fair Chance is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying Statements of Activities and Changes in Net Assets in the financial statements. Fair Chance is not a private foundation.

Uncertain tax positions -

For the years ended December 31, 2017 and 2016, Fair Chance has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

FAIR CHANCE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

In-kind contributions -

In-kind contributions are reflected in the financial statements at their market value on the date the contribution is made. In-kind contributions are comprised of professional services and catering fees for special events. Professional services and catering fees are reflected in the accompanying financial statements as in-kind contribution revenue and the related expenses. The value of these contributions for the years ended December 31, 2017 and 2016 totaled \$38,234 and \$62,180, respectively.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Fair Chance and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Fair Chance and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Grants and contributions -

Grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with donor-imposed restrictions and the satisfaction of time restrictions.

Grants and contributions grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying Statements of Activities and Changes in Net Assets.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities.

FAIR CHANCE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

New accounting pronouncements (not yet adopted) (continued) -

The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Fair Chance's financial statements, it is not expected to alter the Fair Chance's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. Fair Chance has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

Fair Chance plans to adopt the new ASUs at the respective required implementation dates.

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Time Restricted	\$ <u>100,000</u>	\$ <u>150,000</u>

3. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, at December 31, 2017 and 2016, through the passage of time, which satisfied the restricted purposes specified by the donors:

	<u>2017</u>	<u>2016</u>
Passage of Time	\$ <u>50,000</u>	\$ <u>156,250</u>

FAIR CHANCE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

4. BOARD DESIGNATED RESERVES

Included in unrestricted net assets at December 31, 2017 and 2016, are Board designated reserves in the amounts of \$300,000 and \$300,000, respectively. The reserves are designated for the purpose of covering six months of operating expenses in case of an unforeseen hardship. Also included is an additional reserve amount designated for the purpose of expanding the organization beyond DC of \$100,000 in both years.

5. LEASE COMMITMENT

During December 2011, Fair Chance entered into a sixty-two month operating lease agreement for its existing office space, which will expire in January 2017. Fair Chance extended the lease in January 2017 for sixty months, through January 31, 2021.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the Statements of Financial Position. As of December 31, 2017 and 2016, the deferred rent liability was \$4,786 and \$1,211, respectively.

Occupancy expense (including utilities) for the years ended December 31, 2017 and 2016 totaled \$113,455 and \$117,924, respectively.

The minimum future lease obligations are as follows:

Year Ending December 31.

2018	\$	116,855
2019		120,360
2020		123,971
2021		<u>10,356</u>
	\$	<u><u>371,542</u></u>

6. PENSION PLAN

During 2008, Fair Chance established a 403(b) pension plan through Lincoln Financial Group. Fair Chance matches dollar-for-dollar employee contributions, up to a maximum of 3% of the employee's salary. Employees are eligible to receive the matching contribution after six months of full-time employment.

During the years ended December 31, 2017 and 2016, Fair Chance contributed \$17,877 and \$5,737, respectively, to the plan.

7. SUBSEQUENT EVENTS

In preparing these financial statements, Fair Chance has evaluated events and transactions for potential recognition or disclosure through December 27, 2018, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

FAIR CHANCE

**SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016	
	Program Services	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries	\$ 585,503	\$ 109,940	\$ 90,628	\$ 786,071	\$ 721,983
Payroll taxes	43,253	8,125	6,560	57,938	52,233
Benefits	76,077	14,253	11,509	101,839	84,910
Occupancy	82,182	18,899	12,374	113,455	117,924
Partner organization support	-	-	-	-	17,760
Professional fees/consultants	188,157	5,861	38,933	232,951	289,829
Accounting and audit fees	19,708	3,702	2,989	26,399	30,334
Supplies and equipment	2,268	1,034	233	3,535	6,414
Staff development	7,076	1,715	-	8,791	270
Depreciation and amortization	4,745	1,325	720	6,790	7,786
Communications and IT	26,268	4,551	3,675	34,494	27,727
Travel	870	498	-	1,368	2,629
Printing and postage	3,513	769	4,815	9,097	4,116
Insurance	2,936	551	445	3,932	3,952
Meetings and events	22,778	2,415	1,464	26,657	5,952
Membership dues	7,358	401	2,141	9,900	4,890
Bank/corporate fees	1,992	377	302	2,671	3,426
In-kind expenses	38,234	-	-	38,234	62,180
TOTAL	\$ 1,112,918	\$ 174,416	\$ 176,788	\$ 1,464,122	\$ 1,444,315