fair chance

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

Independent Auditors' Report

The Board of Directors
Fair Chance
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Fair Chance which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to Fair Chance'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 Fair Chance'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.

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The Board of Directors
Fair Chance
Washington, D.C.

Report on the Financial Statements (Continued)

Auditors' Responsibility (Continued)

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The summarized financial information of Fair Chance as of and for the year ended December 31, 2017 was audited by other auditors whose report dated October 16, 2018 expressed an unmodified opinion

Emphasis of Matter

As noted in Note 2 of the financial statements, Fair Chance adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

As disclosed in Note 10, the opening net assets without donor restrictions and net assets with donor restrictions in the financial statements for the year ended December 31, 2017 were restated due to the correction of errors.

Mullins PC

Bethesda, Maryland
February 19, 2020

Certified Public Accountants

Fair Chance

Statement of Financial Position
December 31, 2018
With Comparative Totals As of December 31, 2017

Assets

	2018	2017
Assets		
Cash and Cash Equivalents	**$ 515,840**	$ 598,254
Grants and Contributions Receivable	**424,178**	434,001
Prepaid Expenses	**33,944**	25,659
Property and Equipment - Net	**-**	5,649
Security Deposit	**15,890**	15,890
Total Assets	**$ 989,852**	$1,079,453

Liabilities and Net Assets

	2018	2017
Liabilities		
Accounts Payable and Accrued Expenses	**$ 128,526**	$ 33,892
Deferred Revenues	**42,030**	-
Deferred Rent	**6,879**	4,786
Total Liabilities - Total Liabilities	**177,435**	38,678
Net Assets		
Without Donor Restrictions	**72,417**	640,775
Without Donor Restrictions - Board Designated	**300,000**	300,000
With Donor Restrictions	**440,000**	100,000
Total Net Assets	**812,417**	1,040,775
Total Liabilities and Net Assets	**$ 989,852**	$1,079,453

See Accompanying Notes to Financial Statements

Fair Chance

Statement of Activities
For the Year Ended December 31, 2018
With Comparative Totals For the Year Ended December 31, 2017

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	**Total**	Total
Support and Revenues				
Grants and Contributions	$ 648,974	$ 265,000	**$ 913,974**	$ 1,041,196
Contract Revenue	487,103	-	**487,103**	130,250
Special Events - Net of Related Expenses	270,331	-	**270,331**	341,133
In-Kind Contributions	102,614	-	**102,614**	38,234
Interest Income	2,984	-	**2,984**	1,837
Net Assets Released From Restrictions	200,000	(200,000)	**-**	-
Total Support and Revenues	1,712,006	65,000	**1,777,006**	1,552,650
Expenses				
Program Services	1,411,480	-	**1,411,480**	1,112,918
Supporting Services				
General and Administrative	324,154	-	**324,154**	174,416
Fundraising	269,730	-	**269,730**	176,788
Total Supporting Services	593,884	-	**593,884**	351,204
Total Expenses	2,005,364	-	**2,005,364**	1,464,122
Changes in Net Assets	(293,358)	65,000	**(228,358)**	88,528
Net Assets, Beginning of Year (Originally Stated)	940,775	100,000	**1,040,775**	857,247
Restatements	(275,000)	275,000	**-**	95,000
Net Assets, Beginning of Year (As Adjusted)	665,775	375,000	**1,040,775**	952,247
Net Assets, End of Year	$ 372,417	$ 440,000	**$ 812,417**	$ 1,040,775

See Accompanying Notes to Financial Statements

Fair Chance

Statement of Functional Expenses
For the Year Ended December 31, 2018
With Comparative Totals For the Year Ended December 31, 2017

	2018				2017
	Program Services	General and Administrative	Fundraising	**Total**	Total
Personnel Costs	737,181	$ 221,576	$ 171,906	**$ 1,130,663**	$ 954,639
Professional Services	508,577	40,847	65,479	**614,903**	297,584
Travel	1,214	735	816	**2,765**	1,369
Occupancy	77,731	25,572	17,723	**121,026**	113,455
Office	49,364	26,913	11,991	**88,268**	59,697
Events and Meetings	31,928	5,642	530	**38,100**	26,657
Insurance	2,607	772	611	**3,990**	3,931
Depreciation	2,878	2,097	674	**5,649**	6,790
Total Expenses	$ 1,411,480	$ 324,154	$ 269,730	**$ 2,005,364**	1,464,122

See Accompanying Notes to Financial Statements

Fair Chance

Statement of Cash Flows
For the Year Ended December 31, 2018
With Comparative Totals For the Year Ended December 31, 2017

	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	**$ (228,358)**	$ 88,528
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	**5,649**	6,790
Deferred Rent	**2,093**	3,575
(Increase) Decrease in Assets		
Grants and Contributions Receivable	**9,823**	(61,578)
Prepaid Expenses	**(8,285)**	(6,157)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Expenses	**94,634**	4,805
Deferred Revenues	**42,030**	-
Net Cash Provided by (Used in) Operating Activities	**(82,414)**	35,963
Net Increase (Decrease) in Cash and Cash Equivalents	**(82,414)**	35,963
Cash and Cash Equivalents, Beginning of Period	**598,254**	562,291
Cash and Cash Equivalents, End of Period	**$ 515,840**	$ 598,254

See Accompanying Notes to Financial Statements

Fair Chance

Notes to Financial Statements
December 31, 2018

1. ORGANIZATION AND PURPOSE

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

Fair Chance has adopted *Accounting Standards Update 2014-16, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* (ASU 2014-16) for the year ended December 31, 2018. This standard was issued by the Financial Accounting Standards Board (FASB) to improve the previous net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2014-16 reduces the number of net assets classifications from three to two: with donor restrictions and without donor restrictions. The ASU also requires not-for-profits to report expenses by functional and natural classification in one location in the financial statements and requires not-for-profits to report quantitative and qualitative information about management of liquidity resources and availability of financial assets.

As required by ASU 2014-16, Fair Chance applied the requirements on a retrospective basis in the year of adoption. As a result, certain amounts presented in the prior year have been reclassified to conform to the new presentation. All amounts previously reported as "Unrestricted net assets" have been reclassified to be presented as "Net assets without donor restrictions." Similarly, all amounts previously reported as "Temporarily restricted net assets" and "Permanently restricted net assets" have been reclassified to be presented as "Net assets with donor restrictions." The changes in net assets have been similarly reclassified. There was no change in total net assets or total change in net assets as a result of the adoption of ASU 2014-16.

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

<u>Net Assets Without Donor Restrictions:</u> Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Fair Chance. These net assets may be used at the discretion of management and the Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Net Assets With Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Fair Chance or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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.

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 and cash equivalents.

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. All pledges receivable are considered by management to be fully collectible.

Property and Equipment

Property and equipment with an acquisition value of $2,500 or more are capitalized and stated at cost in the accompanying financial statements. Property 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 $2,500 are recorded as expenses are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is recognized when earned. Funds received before being earned are deferred and recognized in the fiscal year when they are earned.

Grants and Contributions

Grants and contributions are recorded as revenue in the year notification is received from the donor. Grants and contributions with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with donor-imposed restrictions and the satisfaction of time restrictions.

Grants and contributions with donor restrictions received in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying Statement of Activities.

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 year ended December 31, 2018 was $102,614.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses present the natural classification detail of expenses by function. Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Occupancy and office expenses, depreciation, information technology costs, and insurance have been allocated among the programs and supporting services based on employee time and effort.

Income Tax Status

Fair Chance is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code.

Fair Chance follows the Financial Accounting Standards Board Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in Fair Chance's financial statements, if any. As of December 31, 2018, Fair Chance had no unrecognized tax benefits related to uncertain tax positions in its information return that would qualify for either recognition or disclosure in its financial statements.

Fair Chance's policy would be to recognize interest and penalties on tax positions related to its unrecognized tax benefits in income tax expense in the financial statements. Through December 31, 2018, there have been no matters that would have resulted in an accrual for interest and/or penalties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status (Continued)

Generally, the tax years before 2015 are no longer subject to examination by federal, state, or local taxing authorities.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued a new standard, ASU 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance. The core principle of the standard is that an entity should recognize revenue when it satisfies a performance obligation at an amount that reflects the consideration the entity expects to receive in exchange for transferring goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard will be effective for the fiscal years beginning January 1, 2019.

In February 2016, the FASB issued ASU 2016-02, Lease Amendments to the FASB Accounting Standards Codification (Topic 842), which amends the recognition of lease assets by organizations. The new standards require a lessee to recognize assets and liabilities for leases with lease terms of 12 or more months, in addition to modifications improvements on lessor accounting, in conjunction with the new guidance on revenue recognition noted above in ASU-2014-09. Additional disclosures will be required for the amount, timing, and uncertainty of cash flows arising from leases, and the standard will be effective for fiscal years beginning January 1, 2021.

Subsequent Events

Management has evaluated subsequent events through February 19, 2020 the date which the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provided evidence about conditions that existed at the Statement of Financial Position date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events with conditions that did not exist at the Statement of Financial Position date, but disclosures of such events, if any, are included in the accompanying notes.

3. CONCENTRATION OF CREDIT RISK

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of $250,000. As of December 31, 2018, bank balances exceeded the FDIC limit by approximately $41,000.

4. GRANTS AND CONTRIBUTIONS RECEIVABLE

As of December 31, 2018, grants and contributions are expected to be received as follows:

2019	$ 264,178
2020	105,000
2021	55,000
Total	$ 424,178

5. PROPERTY AND EQUIPMENT

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

Furniture, Fixtures and Equipment	$ 48,209
Leasehold Improvements	3,895
Total	52,104
Less Accumulated Depreciation and Amortization	(52,104)
Property and Equipment, Net	$ -

Depreciation and amortization expense was $5,649 for the year ended December 31, 2018.

6. NET ASSETS

Net assets with donor restrictions were as follows:

	2017	Contributions	Releases	2018
Program Restricted	$ 100,000	$ -	$ -	**$ 100,000**
Time Restricted	275,000	265,000	(200,000)	**340,000**
Total	$ 375,000	$ 265,000	$ (200,000)	**$ 440,000**

Included in net assets without donor restrictions at December 31, 2018, are Board designated reserves in the amounts of $300,000. The reserves are designated for the purpose of covering operating expenses in case of an unforeseen hardship.

7. LEASE COMMITMENTS

During December 2011, Fair Chance entered into a sixty two month operating lease agreement for its existing office space, which expired 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 Statement of Financial Position. As of December 31, 2018, the deferred rent liability was $6,879.

Rent expense for the year ended December 31, 2018 was $117,856.

As of December 31, 2018, future minimum lease payments were as follows:

2019	$ 120,360
2020	123,971
2021	10,356
Total	$ 254,687

8. RETIREMENT 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 year ended December 31, 2018, Fair Chance contributed $19,906 to the plan.

9. LIQUIDITY AND AVAILABILITY

The following represents Fair Chance's financial assets at December 31, 2018:

Financial Assets at Year End:	
Cash and Cash Equivalents	$ 515,840
Grants and Contributions Receivable	424,178
Total Financial Assets	940,018
Less: Restricted Amounts Not Available To Be Used Within One Year:	
Donor-Restricted	(440,000)
Donor-Restricted To Be Used in Next Twelve Months	180,000
Board-Designated	(300,000)
	(560,000)
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	$ 380,018

9. Liquidity and Availability (Continued)

As part of Fair Chance's liquidity management plan, cash in excess of daily requirements is transferred to income-generating accounts, when practical. If needed the Board of Directors can approve an appropriation from the board designated net assets for operations.

10. Prior Year Restatement

It was discovered that $95,000 in grants and contributions receivable were not accrued as of December 31, 2017. Opening net assets without donor restrictions were increased by $95,000 to reflect this.

Additionally, it was discovered that $275,000 in time restricted pledges had been recorded as net assets without donor restrictions. Opening net assets without donor restrictions were decreased with an offsetting increase to net assets with donor restrictions as reflected in the Statement of Activities. Total net assets did not change with this correction.