FAIR CHANCE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

December 31, 2023

CHAN GROUP
Certified Public Accountants and Consultants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Fair Chance

Opinion

We have audited the accompanying financial statements of Fair Chance (the Organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – *Correction of Error*

As discussed in Note 14 to the financial statements, certain contributions revenue and related contributions receivable were improperly recorded in the previously issued financial statements for the year ended December 31, 2022. Accordingly, beginning net assets as of January 1, 2023 were restated to reflect the corrections of these errors. Our opinion is not modified with respect to that matter.

Adoption of New Accounting Standards

As disclosed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standard Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326),* as amended. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures on the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

HAN GROUP LLC

HAN GROUP LLC
Washington, DC
May 15, 2024

FAIR CHANCE
Statement of Financial Position
December 31, 2023

Assets		
Cash and cash equivalents	$	628,366
Certificates of deposit		107,229
Contributions receivable, net		1,038,011
Prepaid expenses and deposits		39,269
Total assets	$	1,812,875
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$	61,391
Pass-through contributions payable		75,000
Deferred revenue		298,353
Line of credit		112,641
Total liabilities		547,385
Net Assets		
Without donor restrictions		
Undesignated		101,049
Board-designated		300,000
Total without donor restrictions		401,049
With donor restrictions		864,441
Total net assets		1,265,490
Total liabilities and net assets	$	1,812,875

See accompanying notes.

FAIR CHANCE
Statement of Activities
Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	$ 830,804	$ 601,170	$ 1,431,974
Contract income	470,258	-	470,258
Special events:			
Contributions	317,096	-	317,096
Direct benefit to the donors	40,427	-	40,427
Direct costs of special events	(137,281)	-	(137,281)
Net special events	220,242	-	220,242
Contributed nonfinancial assets	33,562	-	33,562
Interest income	13,308	-	13,308
Net assets released from restrictions:			
Expiration of time restrictions	229,229	(229,229)	-
Satisfaction of purpose restrictions	385,979	(385,979)	-
Total revenue and support	2,183,382	(14,038)	2,169,344
Expenses			
Program services	1,530,650	-	1,530,650
Supporting services:			
Management and general	437,049	-	437,049
Fundraising	545,888	-	545,888
Total supporting services	982,937	-	982,937
Total expenses	2,513,587	-	2,513,587
Change in Net Assets	(330,205)	(14,038)	(344,243)
Net Assets, beginning of year as previously stated	796,254	878,479	1,674,733
Prior Period Adjustment	(65,000)	-	(65,000)
Net Assets, beginning of year as restated	731,254	878,479	1,609,733
Net Assets, end of year	$ 401,049	$ 864,441	$ 1,265,490

See accompanying notes.

FAIR CHANCE
Statement of Functional Expenses
Year Ended December 31, 2023

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total Supporting Services	Total
Salaries and related expenses	$ 1,128,566	$ 276,062	$ 444,318	$ 720,380	$ 1,848,946
Professional fees	285,548	103,457	36,900	140,357	425,905
Meetings, conferences, and events	8,319	3,887	137,281	141,168	149,487
Office expenses	47,383	8,393	42,677	51,070	98,453
Occupancy	29,546	7,730	11,722	19,452	48,998
Information technology	26,512	2,076	5,782	7,858	34,370
Bad debt expense	-	23,436	-	23,436	23,436
Insurance	4,084	5,266	1,366	6,632	10,716
Bank fees	-	6,460	-	6,460	6,460
Travel	692	282	3,123	3,405	4,097
Total Expenses	$ 1,530,650	$ 437,049	$ 683,169	$ 1,120,218	$ 2,650,868
Direct costs of special events	-	-	(137,281)	(137,281)	(137,281)
Total Functional Expenses on the Statement of Activities	$ 1,530,650	$ 437,049	$ 545,888	$ 982,937	$ 2,513,587

See accompanying notes.

FAIR CHANCE
Statement of Cash Flows
Year Ended December 31, 2023

Cash Flows from Operating Activities		
Change in net assets	$	(344,243)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Accrued interest on certificates of deposit		(3,541)
Bad debt expense		23,436
Change in operating assets and liabilities:		
Contributions receivable		34,192
Prepaid expenses and deposits		(23,675)
Accounts payable and accrued expenses		(44,087)
Pass-through contributions payable		75,000
Deferred revenue		182,774
Net cash used in operating activities		(100,144)
Cash Flows from Financing Activities		
Borrowing from line of credit		113,727
Repayments of borrowing under line of credit		(1,086)
Net cash provided by financing activities		112,641
Net Increase in Cash and Cash Equivalents		12,497
Cash and Cash Equivalents, beginning of year		615,869
Cash and Cash Equivalents, end of year	$	628,366

Supplemental Cash Flow Information		
Cash paid for interest	$	1,082

See accompanying notes.

1. Nature of Operations

Fair Chance (the Organization) is a not-for-profit organization, incorporated in May 2003, under the laws of the District of Columbia. The primary purpose of the Organization is to provide support and services to community-based non-profit organizations serving children living in the District of Columbia. The Organization fulfills its mission by focusing its efforts in capacity-based partnerships.

Pathways Partnership – The Pathways Partnership promotes organizational stability through a 6-month engagement focusing on strengthening capacity in two of the following areas: Board Development, Fundraising, Resource Alignment, and/or Program Evaluation. The intended outcomes of the Partnership are that Executive Directors gain a thorough understanding of the Partnership focus areas and nonprofits develop a strong organizational foundation. Entities led by people of color (POC) face systemic barriers that prevent them from thriving. As part of the Organization's commitment to racial equity, priority consideration for the Pathways Partnership is given to entities led by POC (meaning that either the Executive Director or the majority of the Board of Directors, including the Board chair, identify as POC).

Praxis Partnership – The Praxis Partnership accelerates sustainability and growth for nonprofits. The twelve-month engagement focuses on strengthening capacity in four of the following areas: Board Development, Financial Management, Fundraising, Human Resources, Leadership Development, Outreach and Communications, Planning and Strategy, and/or Program Evaluation. The intended outcomes for Partner nonprofits are to develop or improve systems that lead to increased revenue and number of participants served.

Ready for Work Nonprofit Capacity Building Initiative – The Ready for Work Nonprofit Capacity Building Initiative is a three-year partnership with selected nonprofits in Prince George's County, Maryland. This initiative helps nonprofits improve organizational outcomes and strengthen their capacity to support young people in achieving their goals. Ready for Work is an initiative of the Prince George's County Council and co-managed with Venture Philanthropy Partners and RaiseDC.

Replication – For over 17 years, the Organization has developed and delivered a proven approach to strengthening local community-based nonprofits serving children and families experiencing poverty. The Organization's work strengthens organizational infrastructure and sustainability and in turn, nonprofits go on to achieve better results for the youth they serve. Having worked with 120 nonprofits in DC with impressive results, and recently expanded to Maryland, the Organization is exploring replication of its model in additional locations. The Organization is seeking potential replication partners (capacity building organizations and funders) looking to strengthen the sustainability and impact of nonprofits serving communities experiencing racism and poverty.

2. Summary of Significant Accounting Policies

<u>Basis of Accounting</u>

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recorded when obligations are incurred.

2. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Pronouncement

Measurement of Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB Accounting Standards Codification (ASC) Topic 326 were trade accounts receivable.

The Organization adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulting in new disclosures only.

Cash and Cash Equivalents

The term cash and cash equivalents as used on the accompanying financial statements includes currency on hand, demand deposits, money market funds, and highly liquid investments purchased from financial institutions with a maturity of three months or less.

Accounts Receivable

Accounts receivable are presented net of an allowance for credit losses resulting from the inability of costumers to make required payments. The allowance for credit losses is based upon historical loss experience in combination with current economic conditions and a forecast of future economic conditions. Any change in the assumptions used in analyzing a specific account receivable might result in an additional allowance for credit losses being recognized in the period in which the change occurs. However, the Organization has historically had insignificant write-offs due to bad debt. At December 31, 2023, the allowance for credit losses was not recorded as there were no receivables due from exchange transactions.

Pass-Through Contributions Payable

The Organization holds contributions on behalf of others and subsequently transfers the contributions to the designated recipients. Based on the nature of these pass-through contributions, the amounts are excluded from the Organization's revenues and expenses in accordance with GAAP as the Organization is not considered the primary beneficiary and does not have explicit variance power over the contributions.

2. Summary of Significant Accounting Policies (continued)

Classification of Net Assets

- *Net Assets Without Donor Restrictions* represent funds that are not subject to donor-imposed stipulations and are available for support of the Organization's general operations.

- *Net Assets With Donor Restrictions* represent funds that are 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. The Organization did not have any donor-imposed restrictions which are perpetual in nature at December 31, 2023.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain amounts reported on the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Contributions

Unconditional contributions are recognized upon notification of the awards and are reported as support with donor restrictions if they are received with donor stipulations that limit the use of donated assets. Contributions with donor-imposed restrictions are reclassified to net assets without donor restrictions when those restrictions are met in compliance with the donor-imposed restrictions and for the expiration of donor-imposed time restrictions. These reclassifications are reported on the accompanying statement of activities as net assets released from restrictions.

Contributions that are considered to be conditional contributions, that is, those with a measurable performance or other barrier and a right of return, are recognized as revenue once the conditions on which they depend have been met. Amounts recognized in revenue that have not been received are included in contributions receivable. Conversely, amounts received in advance of the conditions being met are recorded as refundable advances on the accompanying statement of financial position. The Organization had $100,000 in unrecognized conditional awards at December 31, 2023. The Organization had no refundable advances at December 31, 2023.

Contract Income

Contract income is based on negotiated rates for services performed and recognized once the services are rendered. Amounts due are reported in accounts receivable and conversely amounts received in advance are reported in deferred revenue. The Organization had $298,353 in deferred revenue at December 31, 2023 as reported on the accompanying statement of financial position.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Contributions of Nonfinancial Assets

Contributions of nonfinancial assets include donated legal services and food. Contributions of nonfinancial assets are recognized as revenue and expenses on the accompanying statement of activities at their estimated fair value at the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Unless noted, contributed nonfinancial assets did not have donor-imposed restrictions. See note 10 for additional information on contributions of nonfinancial assets.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis on the accompanying statement of activities. The statement of functional expenses presents expenses by function and natural classification. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited based on the time and effort records. Expenses allocated include salaries and related expenses, office expenses, occupancy, and information technology.

3. Concentrations

Revenue from two sources composed 36% of the Organization's total revenue and support during the year ended December 31, 2023. In addition, amounts due from four sources comprised 75% of the receivables at December 31, 2023. A change in the amount or continuation of funding from these sources could have significant effect on the Organization's operations.

4. Certificates of Deposit and Fair Value Measurements

The Organization reports certain assets at fair value. ASC Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. ASC Topic 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. In order to increase consistency and comparability in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability.

4. Certificates of Deposit and Fair Value Measurements (continued)

The three levels of the fair value hierarchy are described as follows:

- *Level 1* – Based on unadjusted quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.

- *Level 2* – Based quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

    - Quoted prices for similar assets or liabilities in active markets;
    - Quoted prices for identical or similar assets or liabilities in non-active markets;
    - Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
    - Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

- *Level 3* – Based on unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining fair value.

Certificates of deposit: The fair value of the certificates of deposit is based on amortized cost or original cost-plus accrued interest.

The following is a summary of input levels used to determine fair values, measured on a recurring basis, of investments at December 31, 2023:

	Fair Value	Level 2
Certificates of deposit	$ 107,229	$ 107,229

5. Contributions Receivable

Contributions receivable represent amounts due from the Organization's various contributors. It is comprised of unconditional promises to give and are receivable as follows at December 31, 2023:

Receivable in one year	$ 776,070
Receivable in one to five years	270,000
Total contributions receivable	1,046,070
Less: present value discount	(8,059)
Total contributions receivable, net	$ 1,038,011

5. Contributions Receivable (continued)

The multi-year contributions are discounted to their present value with discount rates ranging from 2.8% to 4.22% over the period of the contribution using an estimate of expected cash flows. The Organization has not recorded an allowance for uncollectible accounts, as management believes all amounts are fully collectible.

6. Line of Credit

The Organization has a line of credit with a commercial bank that provides for total advances of up to $300,000. The line bears interest at a variable interest rate which was 8.5% at December 31, 2023. The line of credit is collateralized by substantially all of the Organization's assets. At December 31, 2023, there was an outstanding balance on the line of credit of $112,641 as presented on the accompanying statement of financial position.

7. Liquidity and Availability of Resources

The Organization's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position were as follows:

Financial Assets:		
Cash and cash equivalents	$	628,366
Certificates of deposit		107,229
Contributions receivable, due within one year		776,070
Total financial assets		1,511,665
Less: Donor-imposed restrictions on the financial assets		(602,500)
Less: Board designated funds		(300,000)
Financial assets available to meet cash needs for general expenditures within one year	$	609,165

The Organization's policy is to structure its financial assets to become available as general expenditures, liabilities and other obligations become due, operating within a prudent range of financial soundness and stability while maintaining and monitoring reserves to provide reasonable assurance that program goals will continue to be met. If needed, the Board of Directors can approve an appropriation from the board designated net assets for operations. In addition, the Organization has a line of credit with $187,359 available to draw upon at December 31, 2023.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at December 31, 2023:

Subject to passage of time	$	856,941
Subject of expenditures for specific purposes:		
Coalition for Nonprofit Equity		7,500
Total net assets with donor restrictions	$	864,441

8. Net Assets With Donor Restrictions (continued)

During the year ended December 31, 2023, releases from net assets with donor restrictions were for the following:

Expiration of time restrictions:	$ 229,229
Satisfaction of purpose restrictions:	
Capacity Building	191,829
Program Expansion	100,000
Out of School Time Programming	51,650
Coalition for Nonprofit Equity	42,500
Total net assets released from donor restrictions	$ 615,208

9. Revenue from Contracts with Customers

The following table provides information about significant changes in deferred revenue (contract liabilities) for the year ended December 31, 2023:

Deferred revenue, beginning of year	$ 115,579
Revenue recognized that was included in deferred revenue at the beginning of the year	(115,579)
Increase in deferred revenue due to cash received during the year	298,353
Deferred revenue, end of year	$ 298,353

Deferred revenue at December 31, 2023, equals the transaction price allocated to unfulfilled performance obligations for the year then ended, and the amount is expected to be recognized in one year or less.

10. Contributions of Nonfinancial Assets

The Organization received contributed services in support of its management and general and food for its fundraising functions. The following table summarizes the revenue recognized for the Organization's contributed nonfinancial assets for the year ended December 31, 2023:

Legal services	$ 31,937
Food	1,625
Total contributions of nonfinancial assets	$ 33,562

The fair value of the contributed legal services was estimated using the firms standard hourly rates. The fair value for food was determined by the market value of similar items. There were no donor restrictions on the contributed nonfinancial assets.

11. Risk and Contingencies

Financial instruments, which potentially subject the Organization to a concentration of credit risk, consist principally of cash deposits and certificates of deposit. The Organization maintains cash deposits and certificates of deposit with various financial institutions that may, at times, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC). Amounts in excess of insured limits are at risk for potential loss. The Organization has not experienced any losses on its cash deposits or investments to date as it relates to FDIC insurance limits. Management periodically assesses the financial condition of the institutions and believes that the risk of loss is minimal.

12. Retirement Plan

The Organization established a 403(b) pension plan through Lincoln Financial Group. The Organization matched dollar-for-dollar employee contributions, up to 3% of the employee's salary. Employees are eligible to receive the matching contribution after six months of full-time employment. The Organization contributed $33,791 to the plan for the year ended December 31, 2023, and is included in salaries and related expenses on the accompanying statement of functional expenses.

13. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Organization is a nonprofit organization and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required for the year ended December 31, 2023, as the Organization had no taxable net unrelated business income.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic 740-10, Income Taxes. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized on an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expenses.

The Organization performed an evaluation of uncertain tax positions for the year ended December 31, 2023, and determined that there were no matters that would require recognition on the financial statements or that may have any effect on its tax-exempt status. The statute of limitations generally remains open for three tax years with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns.

14. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 15, 2024, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements.

15. Prior Period Adjustment

During 2023, certain misstatements were identified in previously reported contributions revenue and contributions receivable. An adjustment of $65,000 was made to decrease net asset without donor restriction and decrease contributions receivable as of January 1, 2023. The net effect of these adjustments is reflected in the accompanying financial statements.