

VICTORY YOUTH CENTERS, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

**VICTORY YOUTH CENTERS, INC.
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YEAR ENDED JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Victory Youth Centers, Inc.
Washington, DC

Report on the Financial Statements

We have audited the accompanying financial statements of Victory Youth Centers, Inc., which comprise the statement of financial position as of June 30, 2018, 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 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.

Board of Directors
Victory Youth Centers, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Victory Youth Centers, Inc. as of June 30, 2018, and the changes in its net assets its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 8, 2018

VICTORY YOUTH CENTERS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Cash	\$ 51,294
Accounts Receivable, Net	2,030
Property and Equipment, Net (Note 3)	3,603,303
Donated Land Lease, Net (Note 4)	954,431
Total Assets	<u>\$ 4,611,058</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Loan Payable (Note 5)	\$ 1,820,000
Due to Related Parties (Note 2)	7,224
Accounts Payable and Accrued Liabilities	18,381
Deferred Revenue	2,756
Total Liabilities	<u>1,848,361</u>

NET ASSETS

Unrestricted:	
Accumulated Operating Net Assets	24,963
Invested in Property and Equipment	2,737,734
Total Unrestricted Net Assets	<u>2,762,697</u>
Total Liabilities and Net Assets	<u>\$ 4,611,058</u>

See accompanying Notes to Financial Statements.

**VICTORY YOUTH CENTERS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

REVENUE

Contributions:	
General	\$ 5,525
Debt Forgiveness	40,000
Donated Services	29,500
Subsidy Income from the Archdiocese	125,000
Rent and Other Fees	103,740
Total Revenue	<u>303,765</u>

EXPENSES

Program Services	523,275
Management and General	76,365
Total Expenses	<u>599,640</u>

CHANGE IN NET ASSETS (295,875)

Net Assets - Beginning of Year 3,058,572

NET ASSETS - END OF YEAR \$ 2,762,697

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and Benefits	\$ 85,100	\$ 36,471	\$ 121,571
Supplies	955	169	1,124
Other Occupancy Costs	12,180	5,220	17,400
Professional Fees	10,972	16,701	27,673
Donated Services	11,696	17,804	29,500
Utilities	65,044	-	65,044
Insurance, Repairs, and Maintenance	101,874	-	101,874
Depreciation and Amortization	<u>235,454</u>	<u>-</u>	<u>235,454</u>
 Total Expenses	 <u><u>\$ 523,275</u></u>	 <u><u>\$ 76,365</u></u>	 <u><u>\$ 599,640</u></u>

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (295,875)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation and Amortization	235,454
Debt Forgiveness	(40,000)
Decrease in Assets:	
Accounts Receivable, Net	154,436
Increase in Liabilities:	
Due to Related Parties	7,224
Accounts Payable and Accrued Liabilities	14,540
Deferred Revenue	131
Net Cash Provided by Operating Activities	<u>75,910</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Furniture and Equipment	<u>(24,616)</u>
NET INCREASE IN CASH	51,294
Cash - Beginning of Year	<u>-</u>
CASH - END OF YEAR	<u><u>\$ 51,294</u></u>

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization

Victory Youth Centers, Inc. (VYC) was incorporated in 1999 in Maryland with the purpose of building, maintaining, and operating gymnasiums. VYC is affiliated with the Archdiocese of Washington (Archdiocese), which serves the District of Columbia and the Maryland counties of Montgomery, Prince Georges, Calvert, St. Mary's, and Charles. During the year ended June 30, 2018, the only activity of VYC was the operation of a gymnasium, the Mary Virginia Merrick (MVM) Center, in the District of Columbia.

(b) Basis of Accounting

The financial statements of VYC have been prepared on the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when incurred.

(c) Basis of Presentation

VYC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently or temporarily restricted net assets at June 30, 2018.

A description of these net asset categories follows:

Unrestricted Net Assets – Includes revenue and expenses associated with the general operating purposes of VYC.

Temporarily Restricted Net Assets – Generally includes contributions for which donor-imposed direct restrictions have not yet been met.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently.

Contributions received are recorded as restricted or unrestricted support depending on the existence and/or nature of any donor restrictions.

(d) Use of Estimates

The preparation of 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, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received or when the promise is made, if earlier. Contributions of investments are recorded at their fair value at the date of the gift.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property and Equipment and Donated Land Lease

Property and equipment represent the cost of the building and the furniture and equipment therein. The building costs are being amortized over 30 years which coincides with the term of the ground lease. The building was constructed on land that was donated by the Archdiocese under a 30-year lease with an annual payment of \$1. The contribution element inherent in this below fair market value ground lease was recorded as revenue at the lease inception date. Based on a fair value of \$1,442,074 when the gymnasium was placed in service on May 11, 2008, amortization expense of \$48,069 is recorded as program expense each year of the lease. Under Canon law, all real estate assets are titled to the Archbishop of Washington.

(g) Donated Services

VYC receives donated services from volunteers in carrying out programs and supporting services. The value of these services is not recorded in the financial statements. In addition, the Central Pastoral Administration (CPA) provides administrative services to VYC. A portion of the services provided for fiscal year 2018 is recorded as donated services revenue for the year ended June 30, 2018. See Note 2.

(h) Functional Allocation of Expenses

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

(i) Income Tax

VYC is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code and did not have any unrelated business income for the year ended June 30, 2018. Accordingly, no provision for income taxes has been made.

NOTE 2 RELATED PARTY TRANSACTIONS

VYC had the following related party transactions during the year ended June 30, 2018:

- Incurred and paid \$12,000 in administrative fees for accounting and other services performed by personnel of the Archdiocese in 2018. During 2018, VYC changed its approach to estimating the valuation of administrative services. This change in estimate resulted in recording donated services of \$29,500 for the year ended June 30, 2018, in addition to the aforementioned amount paid for administrative fees. This change in estimate is applied prospectively effective July 1, 2017.
- Incurred \$17,421 of property/casualty insurance expenses for participation in the Archdiocese's insurance programs during 2018.

**VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018**

NOTE 2 RELATED PARTY TRANSACTIONS (CONTINUED)

- Received subsidy income of \$125,000 from the Archdiocese in 2018.
- During FY18, the CPA paid expenses on behalf of VYC totaling \$28,362 of which \$7,224 remained payable at June 30, 2018.

NOTE 3 PROPERTY AND EQUIPMENT

At June 30, 2018, property and equipment are as follows:

Building	\$ 5,363,268
Furniture and Equipment	50,513
Total	5,413,781
Less: Accumulated Depreciation	(1,810,478)
Total Property and Equipment, Net	\$ 3,603,303

NOTE 4 DONATED LAND LEASE

At June 30, 2018, the donated land lease is as follows:

Initial Fair Value of Donated Land Lease	\$ 1,442,074
Less: Accumulated Amortization	(487,643)
Total Donated Land Lease, Net	\$ 954,431

NOTE 5 LOAN PAYABLE

On May 24, 2006, VYC entered into a loan agreement with the D.C. Department of Housing and Community Development (DHCD) in the amount of \$2,000,000 for construction expenditures related to the MVM Center. If after five years VYC has complied with all terms of the loan agreement, this loan will be forgiven over a graded scale as follows: 1% from years 6 to 10, 2% for years 11 to 20, 5% for years 21 to 25, and 10% for years 26 to 30. For each year an amount of the loan is forgiven, VYC will recognize the specific amount as grant income.

Should VYC not comply with the terms of the loan agreement, the principal and all accrued but unrecorded contingent interest from the date of the loan agreement shall be due and payable at the rate of 3% per annum. The outstanding loan balance is \$1,820,000 as of June 30, 2018. Although VYC has substantively, but not fully, complied with all requirements outlined in the loan agreement, the lender has not historically and is not expected to enforce these provisions and has confirmed the good standing of VYC. As it is not probable that the accrued interest will be owed at loan maturity, no liability has been recorded for the amount of contingent interest.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 6 OPERATIONS

VYC is not generating sufficient cash flow from operations and is relying heavily on the Archdiocese to continue operations. Management is implementing a strategy to control costs as much as possible and receives \$125,000 in support from the Archdiocese annually. The Archdiocese continues to support VYC in order to continue operations and there is no plan for this support to end. Management intends to seek external grants for operating support to allow the facility to continue to provide essential services to the youth of DC's Ward 8.

NOTE 7 CONCENTRATIONS

VYC received a substantial portion of its support for the year ended June 30, 2018, from two major revenue sources. Approximately 46% and 12% of total revenue, excluding in-kind donations, was received from the Archdiocese and a major rental tenant, respectively.

NOTE 8 SUBSEQUENT EVENTS

In preparing these financial statements, VYC has evaluated events and transactions for potential recognition or disclosure through November 8, 2018, the date that the financial statements were available to be issued.