

VICTORY YOUTH CENTERS, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

**VICTORY YOUTH CENTERS, INC.
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YEARS ENDED JUNE 30, 2019 AND 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 statements of financial position as of June 30, 2019 and 2018, the related statements of activities, functional expenses, 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.

Auditors' 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 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.

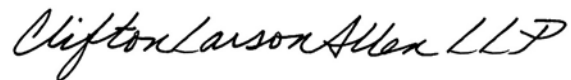
Opinion

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, 2019 and 2018, 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.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, management has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Arlington, Virginia
December 10, 2019

VICTORY YOUTH CENTERS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash	\$ 84,795	\$ 51,294
Accounts receivable, net	-	2,030
Property and equipment, net (note 3)	3,419,781	3,603,303
Donated land lease, net (note 4)	906,362	954,431
Total assets	\$ 4,410,938	\$ 4,611,058
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 19,604	\$ 18,381
Due to related parties (note 2)	4,807	7,224
Deferred revenue	2,894	2,756
Loan payable (note 5)	1,780,000	1,820,000
Total liabilities	1,807,305	1,848,361
NET ASSETS		
Net assets without donor restrictions:		
Accumulated operating net assets	(1,702,906)	(1,776,656)
Invested in property and equipment	4,306,539	4,539,353
Total net assets without donor restrictions	2,603,633	2,762,697
Total liabilities and net assets	\$ 4,410,938	\$ 4,611,058

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
REVENUE		
Contributions:		
General	\$ 161,682	\$ 5,525
Debt forgiveness	40,000	40,000
Donated services	30,385	29,500
Subsidy income from the Archdiocese	125,000	125,000
Rent and other fees	109,641	103,740
Total revenue	466,708	303,765
EXPENSES		
Program services	536,049	523,275
Management and general	89,723	76,365
Total expenses	625,772	599,640
CHANGE IN NET ASSETS	(159,064)	(295,875)
Net assets - beginning of year	2,762,697	3,058,572
NET ASSETS - END OF YEAR	\$ 2,603,633	\$ 2,762,697

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and benefits	\$ 91,445	\$ 39,191	\$ 130,636
Supplies	5,727	2,456	8,183
Other occupancy costs	11,277	4,979	16,256
Professional fees	24,082	33,981	58,063
Donated services	21,270	9,116	30,386
Utilities	56,856	-	56,856
Insurance, repairs, and maintenance	89,034	-	89,034
Depreciation and amortization	<u>236,358</u>	<u>-</u>	<u>236,358</u>
 Total expenses	 <u><u>\$ 536,049</u></u>	 <u><u>\$ 89,723</u></u>	 <u><u>\$ 625,772</u></u>

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.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (159,064)	\$ (295,875)
Adjustments to reconcile change in net assets to		
Net cash provided by operating activities:		
Depreciation and amortization	236,358	235,454
Debt forgiveness	(40,000)	(40,000)
Decrease in assets:		
Accounts receivable, net	2,030	154,436
Increase in liabilities:		
Due to related parties	(2,417)	7,224
Accounts payable and accrued liabilities	1,223	14,540
Deferred revenue	138	131
Net cash provided by operating activities	38,268	75,910
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,767)	(24,616)
NET INCREASE IN CASH	33,501	51,294
Cash - beginning of year	51,294	-
CASH - END OF YEAR	\$ 84,795	\$ 51,294

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 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 years ended June 30, 2019 and 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. There were no net assets with donor restrictions at June 30, 2019 and 2018.

A description of these net asset categories follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may be met either by actions of VYC and/or the passage of time.

Contributions received are recorded as with donor restrictions or without donor restrictions 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
JUNE 30, 2019 AND 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 provides administrative services to VYC. A portion of the services provided for fiscal years 2019 and 2018 is recorded as donated services revenue for the years ended June 30, 2019 and 2018, respectively. 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. For utilities, insurance, repairs and maintenance, and depreciation and amortization, 100% of expenses are directly applied to program services due to minimal administrative functions on the property. For salaries and benefits, supplies, other occupancy costs, donated services, and certain other professional fees, 70% of the expenses are allocated to program services and 30% are allocated to management and general. This allocation is based on time spent by the VYC manager.

(i) Liquidity

VYC structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following reflects VYC's financial assets as of the date of the statement of financial position, all of which are available for general use within one year of the statement of financial position:

	2019	2018
Cash	\$ 84,795	\$ 51,294
Accounts receivable, net	-	2,030
Total	\$ 84,795	\$ 53,324

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Adoption of Recent Accounting Pronouncement

VYC adopted the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This standard was issued by FASB to improve the previous net asset classification requirements and the information presented in financial statement and notes about a nonprofit entity's liquidity, financial performance, and cash flows. ASU 2016-14 reduces the number of net asset classifications from three to two: with donor restrictions and without donor restrictions. The ASU also requires nonprofits to report expenses by functional and natural classification in one location in the financial statements and requires nonprofits to report quantitative and qualitative information about management of liquidity resources and availability of financial assets. As required by the ASU, VYC applied the requirements on a retrospective basis in the year of adoption. There has been no net asset impact as a result of this application.

(k) 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 years ended June 30, 2019 and 2018. Accordingly, no provision for income taxes has been made.

(l) Subsequent Events

In preparing these financial statements, VYC has evaluated events and transactions for potential recognition or disclosure through December 10, 2019, the date that the financial statements were available to be issued.

NOTE 2 RELATED PARTY TRANSACTIONS

VYC had the following related party transactions during the years ended June 30, 2019 and 2018:

- Incurred and paid \$12,000 in administrative fees for accounting and other services performed by personnel of the Archdiocese in 2019 and 2018. VYC recorded donated services of \$30,385 and \$29,500 for the years ended June 30, 2019 and 2018, respectively, in addition to the aforementioned amount paid for administrative fees.
- Total related party expenses for the years ended June 30, 2019 and 2018, amounted to \$42,420 and \$42,067, respectively, which included the \$12,000 in administrative fees for both years. Amounts that remained payable to the Archdiocese at June 30, 2019 and 2018, totaled \$4,807 and \$7,224, respectively.
- Received subsidy income of \$125,000 from the Archdiocese in 2019 and 2018.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Building	\$ 5,363,268	\$ 5,363,268
Furniture and equipment	55,280	50,513
Total	<u>5,418,548</u>	<u>5,413,781</u>
Less: accumulated depreciation	(1,998,767)	(1,810,478)
Total property and equipment, net	<u>\$ 3,419,781</u>	<u>\$ 3,603,303</u>

NOTE 4 DONATED LAND LEASE

The donated land lease is as follows at June 30:

	<u>2019</u>	<u>2018</u>
Initial fair value of donated land lease	\$ 1,442,074	\$ 1,442,074
Less: accumulated amortization	(535,712)	(487,643)
Total donated land lease, net	<u>\$ 906,362</u>	<u>\$ 954,431</u>

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 \$1,780,000 and \$1,820,000 as of June 30, 2019 and 2018, respectively. Although VYC has substantially, 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
JUNE 30, 2019 AND 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. VYC received \$125,000 in support in fiscal year 2019, and is budgeted to receive \$115,000 in support in fiscal year 2020. The Archdiocese continues to support VYC in order to continue operations, and there is no plan for this support to end. Management hired a grant writing consultant to assist with obtaining 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 from two major revenue sources in 2018 and 2019. During the year ended June 30, 2018, approximately 46% and 12% of total revenue, excluding in-kind donations, was received from the Archdiocese and a major rental tenant, respectively. During the year ended June 30, 2019, approximately 29% and 36%, of total revenue, excluding in-kind donations, was received from the Archdiocese and a major donor, respectively.