

VICTORY YOUTH CENTERS, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019



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**VICTORY YOUTH CENTERS, INC.
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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, 2020 and 2019, 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, 2020 and 2019, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
November 16, 2020

VICTORY YOUTH CENTERS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash	\$ 14,084	\$ 84,795
Accounts receivable, net	12,000	-
Property and equipment, net (note 3)	3,232,411	3,419,781
Donated land lease, net (note 4)	858,293	906,362
Total assets	\$ 4,116,788	\$ 4,410,938
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 18,885	\$ 19,604
Due to related parties (note 2)	34,473	4,807
Deferred revenue	3,039	2,894
Note payable (note 5)	30,500	-
Loan payable (note 6)	1,740,000	1,780,000
Total liabilities	1,826,897	1,807,305
NET ASSETS		
Net assets without donor restrictions:		
Accumulated operating net assets	(69,468)	57,490
Invested in property and equipment	2,350,704	2,546,143
Total net assets without donor restrictions	2,281,236	2,603,633
Net assets with donor restrictions (note 7)	8,655	-
Total net assets	2,289,891	2,603,633
Total liabilities and net assets	\$ 4,116,788	\$ 4,410,938

See accompanying Notes to Financial Statements.

**VICTORY YOUTH CENTERS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE		
Contributions:		
General	\$ 13,000	\$ 161,682
Debt forgiveness	40,000	40,000
Donated services	37,500	30,385
Subsidy income from the Archdiocese	115,000	125,000
Rent and other fees	95,128	109,641
Total revenue	300,628	466,708
EXPENSES		
Program services	531,680	536,049
Management and general	91,345	89,723
Total expenses	623,025	625,772
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(322,397)	(159,064)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions, donations, and gifts	8,655	-
Change in net assets with donor restrictions	8,655	-
CHANGE IN NET ASSETS	(313,742)	(159,064)
Net assets - beginning of year	2,603,633	2,762,697
NET ASSETS - END OF YEAR	\$ 2,289,891	\$ 2,603,633

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and benefits	\$ 98,047	\$ 42,021	\$ 140,068
Supplies	1,644	705	2,349
Other occupancy costs	12,468	5,368	17,836
Professional fees	18,932	32,001	50,933
Donated services	26,250	11,250	37,500
Utilities	49,595	-	49,595
Insurance, repairs, and maintenance	89,305	-	89,305
Depreciation and amortization	<u>235,439</u>	<u>-</u>	<u>235,439</u>
 Total expenses	 <u>\$ 531,680</u>	 <u>\$ 91,345</u>	 <u>\$ 623,025</u>

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>\$ 536,049</u>	 <u>\$ 89,723</u>	 <u>\$ 625,772</u>

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (313,742)	\$ (159,064)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	235,439	236,358
Debt forgiveness	(40,000)	(40,000)
Decrease in assets:		
Accounts receivable, net	(12,000)	2,030
Increase in liabilities:		
Due to related parties	29,666	(2,417)
Accounts payable and accrued liabilities	(719)	1,223
Deferred revenue	145	138
Net cash provided (used) by operating activities	(101,211)	38,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(4,767)
Net cash used by investing activities	-	(4,767)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings under note payable	30,500	-
Net cash provided by financing activities	30,500	-
NET CHANGE IN CASH	(70,711)	33,501
Cash - beginning of year	84,795	51,294
CASH - END OF YEAR	\$ 14,084	\$ 84,795

See accompanying Notes to Financial Statements.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020 and 2019, 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.

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, 2020 AND 2019

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 2020 and 2019 is recorded as donated services revenue for the years ended June 30, 2020 and 2019, 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 dates of the statements of financial position, all of which are available for general use within one year of the statement of financial position:

	2020	2019
Cash	\$ 14,084	\$ 84,795
Accounts receivable, net	12,000	-
	<u>26,084</u>	<u>84,795</u>
Less: Net assets with donor restrictions	(8,655)	-
	<u><u>\$ 17,429</u></u>	<u><u>\$ 84,795</u></u>
Total		

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Adoption of Recent Accounting Pronouncement

In 2020, VYC adopted FASB-issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The guidance provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The ASU has been applied using the modified retrospective method with no effect on net assets.

(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, 2020 and 2019. 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 November 16, 2020, 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, 2020 and 2019:

- Incurred and paid \$12,000 in administrative fees for accounting and other services performed by personnel of the Archdiocese in 2020 and 2019. VYC recorded donated services of \$37,500 and \$30,385 for the years ended June 30, 2020 and 2019, respectively, in addition to the aforementioned amount paid for administrative fees.
- Total related party expenses for the years ended June 30, 2020 and 2019, amounted to \$43,848 and \$42,420, respectively, which included the \$12,000 in administrative fees for both years. Amounts that remained payable to the Archdiocese at June 30, 2020 and 2019, totaled \$34,473 and \$4,807, respectively.
- Received subsidy income of \$115,000 and \$125,000 from the Archdiocese in 2020 and 2019, respectively.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Building	\$ 5,363,268	\$ 5,363,268
Furniture and equipment	54,909	55,280
Total	<u>5,418,177</u>	<u>5,418,548</u>
Less: accumulated depreciation	<u>(2,185,766)</u>	<u>(1,998,767)</u>
Total property and equipment, net	<u>\$ 3,232,411</u>	<u>\$ 3,419,781</u>

NOTE 4 DONATED LAND LEASE

The donated land lease is as follows at June 30:

	<u>2020</u>	<u>2019</u>
Initial fair value of donated land lease	\$ 1,442,074	\$ 1,442,074
Less: accumulated amortization	<u>(583,781)</u>	<u>(535,712)</u>
Total donated land lease, net	<u>\$ 858,293</u>	<u>\$ 906,362</u>

NOTE 5 NOTE PAYABLE

On April 16, 2020, VYC received a loan from United Bank in the amount of \$30,500 to fund payroll and utilities through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over twenty-four months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. To the extent that all or part of the PPP Loan is not forgiven, the loan will have a maturity date of April 7, 2022.

NOTE 6 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.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 LOAN PAYABLE (CONTINUED)

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 \$1,740,000 and \$1,780,000 as of June 30, 2020 and 2019, 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.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

The following summarizes the nature of the net assets with donor restrictions and the purpose for which such net assets may be used as of June 30, 2020:

Future time periods	\$ 4,655
Mentoring program	<u>4,000</u>
Total net assets with donor restrictions	<u><u>\$ 8,655</u></u>

NOTE 8 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 \$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 contracted with 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 9 CONCENTRATIONS

VYC received a substantial portion of its support from two major revenue sources in 2019 and from one major revenue source in 2020. 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. During the year ended June 30, 2020, approximately 42% of total revenue, excluding in-kind donations, was received from the Archdiocese.

VICTORY YOUTH CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 CONTINGENCIES

In March 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to VYC, COVID-19 may impact various parts of its 2020 operations and financial results including but not limited to declines in program services or loss of revenues. Management believes VYC is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.