FINANCIAL STATEMENTS

fair chance

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

FAIR CHANCE

CONTENTS

GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fair Chance
Washington, D.C.

We have audited the accompanying financial statements of Fair Chance, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets 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.

Auditor's 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 audits 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 auditor's 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.

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, 2012 and 2011, 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.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gelman Rosenberg & Freedman

Bethesda, Maryland
June 3, 2013

EXHIBIT A

FAIR CHANCE

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 950,645	$ 642,004
Pledges and contributions receivable	48,683	132,189
Prepaid expenses	11,605	6,893
Total current assets	1,010,933	781,086
FIXED ASSETS		
Furniture, fixtures and equipment	19,620	19,620
Leasehold improvements	3,895	3,895
	23,515	23,515
Less: Accumulated depreciation and amortization	(18,521)	(14,989)
Net fixed assets	4,994	8,526
OTHER ASSETS		
Deposits	15,890	15,890
TOTAL ASSETS	**$ 1,031,817**	**$ 805,502**

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 5,946	$ 8,696
Deferred rent (Note 5)	16,353	7,999
Total current liabilities	22,299	16,695
NET ASSETS		
Unrestricted:		
Undesignated	415,521	353,807
Board designated reserve (Note 4)	500,000	400,000
Total unrestricted net assets	915,521	753,807
Temporarily restricted (Note 2)	93,997	35,000
Total net assets	1,009,518	788,807
TOTAL LIABILITIES AND NET ASSETS	**$ 1,031,817**	**$ 805,502**

See accompanying notes to financial statements.

FAIR CHANCE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Government funding	$ 179,612	$ -	$ 179,612
Foundation grants	318,503	93,997	412,500
Individual contributions	85,254	-	85,254
Corporate contributions	133,000	-	133,000
Net assets released from donor restrictions (Note 3)	35,000	(35,000)	-
Total contributions	751,369	58,997	810,366
Special events revenue	340,085	-	340,085
Special events, in-kind contribution revenue	22,377	-	22,377
Special events expenses	(88,531)	-	(88,531)
Special events, in-kind contribution expense	(22,377)	-	(22,377)
Special events revenue net	251,554	-	251,554
In-kind contributions	52,302	-	52,302
Interest income	8,377	-	8,377
Fees for service	7,840	-	7,840
Total support and revenue	1,071,442	58,997	1,130,439
EXPENSES			
Program Services	699,600	-	699,600
Management and General	61,677	-	61,677
Fundraising	148,451	-	148,451
Total expenses	909,728	-	909,728
Changes in net assets	161,714	58,997	220,711
Net assets at beginning of year	753,807	35,000	788,807
NET ASSETS AT END OF YEAR	**$ 915,521**	**$ 93,997**	**$ 1,009,518**

See accompanying notes to financial statements.

2011		
Unrestricted	**Temporarily Restricted**	**Total**
$ 258,393	$ -	$ 258,393
238,500	35,000	273,500
66,074	-	66,074
80,000	-	80,000
50,000	(50,000)	-
692,967	(15,000)	677,967
193,188	-	193,188
12,900	-	12,900
(69,563)	-	(69,563)
(12,900)	-	(12,900)
123,625	-	123,625
98,863	-	98,863
8,260	-	8,260
2,000	-	2,000
925,715	(15,000)	910,715
659,376	-	659,376
84,763	-	84,763
173,978	-	173,978
918,117	-	918,117
7,598	(15,000)	(7,402)
746,209	50,000	796,209
$ 753,807	**$ 35,000**	**$ 788,807**

FAIR CHANCE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 220,711	$ (7,402)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	3,532	4,997
Loss on disposal of fixed asset	-	4,337
Deferred rent	8,354	7,999
(Increase) decrease in:		
Pledges and contributions receivable	83,506	(51,586)
Prepaid expenses	(4,712)	(1,936)
Deposits	-	(8,250)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(2,750)	(2,131)
Net cash provided (used) by operating activities	308,641	(53,972)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(6,435)
Net cash used by investing activities	-	(6,435)
Net increase (decrease) in cash and cash equivalents	308,641	(60,407)
Cash and cash equivalents at beginning of year	642,004	702,411
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 950,645**	**$ 642,004**

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

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 equivalents.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the “Dodd-Frank Deposit Insurance Provision”). Fair Chance maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage.

Bank deposit accounts at one institution will be insured by the FDIC up to a limit of $250,000. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at market value. Unrealized gains and losses are included in interest income in the Statements of Activities and Changes in Net Assets.

Fixed assets -

Fixed assets with an acquisition value of $1,000 or more are capitalized and stated at cost in the accompanying financial statements. Furniture, fixtures 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 $1,000 are recorded as expenses are incurred.

Income taxes -

Fair Chance is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying activities and changes in net assetsfinancial statements. Fair Chance is not a private foundation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Uncertain tax positions -

For the years ended December 31, 2012 and 2011, Fair Chance has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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 years ended December 31, 2012 and 2011 totaled $74,679 and $111,763, respectively.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Fair Chance and include both internally designated and undesignated resources.

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Fair Chance and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Contributions -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with donor-imposed restrictions and the satisfaction of time restrictions. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying activities and changes in net assetsfinancial statements.

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.

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2012 and 2011:

	2012	2011
Time Restricted	**$ 93,997**	**$ 35,000**

3. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions, at December 31, 2012 and 2011, through the passage of time, which satisfied the restricted purposes specified by the donors:

	2012	2011
Passage of Time	**$ 35,000**	**$ 50,000**

4. BOARD DESIGNATED RESERVES

Included in unrestricted net assets at December 31, 2012 and 2011 are Board designated reserves in the amount of $500,000 and $400,000, respectively. The reserves are designated for the purpose of covering six months of operating expenses in case of an unforeseen hardship.

5. LEASE COMMITMENT

During December 2011, Fair Chance entered into a sixty-two month operating lease agreement for its existing office space, which will expire in 2017.

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 Statements of Financial Position. As of December 31, 2012 and 2011, the deferred rent liability was $16,353 and $7,999, respectively.

Rent expense (including utilities) for the years ended December 31, 2012 and 2011 totaled $96,114 and $101,979, respectively.

The minimum future lease obligations are as follows:

Year Ending December 31,	
2013	$ 94,231
2014	97,058
2015	100,227
2016	107,574
2017	9,210
	$ 408,300

6. PENSION 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 years ended December 31, 2012 and 2011, Fair Chance contributed $11,562 and $11,077, respectively, to the plan.

7. SUBSEQUENT EVENTS

In preparing these financial statements, Fair Chance has evaluated events and transactions for potential recognition or disclosure through June 3, 2013, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

FAIR CHANCE

SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2011

	2012				2011
	Program Services	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries	$ 412,886	$ 41,272	$ 99,600	$ 553,758	$ 506,814
Payroll taxes	36,026	3,601	8,690	48,317	45,310
Benefits	30,565	3,055	7,373	40,993	37,130
Occupancy	71,664	7,163	17,287	96,114	101,979
Partner support	8,937	-	-	8,937	6,509
Professional fees/consultants	37,394	237	571	38,202	44,621
Accounting and audit fees	19,319	1,931	4,660	25,910	23,852
Supplies	6,158	571	1,379	8,108	5,795
Staff development	3,146	314	759	4,219	1,656
Depreciation and amortization	2,633	263	636	3,532	4,997
Information technology	13,031	1,303	3,142	17,476	21,926
Travel	2,765	15	68	2,848	2,136
Printing	1,020	102	246	1,368	3,810
Insurance	2,686	268	648	3,602	3,321
Meetings	1,175	92	355	1,622	1,817
Membership dues	1,417	32	76	1,525	1,704
Postage	254	25	290	569	481
Bank fees	-	326	-	326	1,059
Loss on disposal of assets	-	-	-	-	4,337
In-kind expenses	48,524	1,107	2,671	52,302	98,863
TOTAL	**$ 699,600**	**$ 61,677**	**$ 148,451**	**$ 909,728**	**$ 918,117**