

**YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY**

FINANCIAL STATEMENTS

DECEMBER 31, 2022



**YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY**

**FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Youth Challenge of Hampton Roads, Inc.
d/b/a Faith Recovery
Newport News, Virginia

We have reviewed the accompanying financial statements of Youth Challenge of Hampton Roads, Inc., d/b/a Faith Recovery (a nonprofit Organization), which comprise the statement of financial position as of December 31, 2022, the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Barnes, Brock, Cornwell & Painter PLC

Chesapeake, Virginia
May 25, 2023

**YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY**

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022**

ASSETS	<u>2022</u>
CURRENT ASSETS:	
Cash	\$ 567,687
Other accounts receivable	200
Loan receivable - current	<u>77,500</u>
Total current assets	<u>\$ 645,387</u>
PROPERTY AND EQUIPMENT:	
Vehicles	\$ 71,755
Furniture and fixtures	-
Equipment	<u>9,100</u>
Total	<u>\$ 80,855</u>
Less accumulated depreciation	<u>(72,518)</u>
Net property and equipment	<u>\$ 8,337</u>
OTHER ASSET:	
Loan receivable - long term	\$ 203,750
Deposit	<u>700</u>
Net other assets	<u>\$ 204,450</u>
Total assets	<u><u>\$ 858,174</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 7,970
Other taxes payable	3,727
Payroll taxes payable	<u>1,902</u>
Total liabilities	<u>\$ 13,599</u>
NET ASSETS:	
Without donor restrictions	<u>\$ 844,575</u>
Total liabilities and net assets	<u><u>\$ 858,174</u></u>

See independent accountant's review report and accompanying notes to financial statements.

YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions
OPERATING REVENUE AND SUPPORT:	
Contributions	\$ 295,696
Thrift store sales, net of rent expense, \$38,400	106,001
Fundraising income, net of expenses, \$20,410	13,854
Miscellaneous job-related income	18,990
Miscellaneous income	26,229
Loan forgiveness - See Note 4	13,000
Program fees	20,863
Total	\$ 494,633
Donations in-kind - See Note 7	
Donated rent	\$ 33,178
Donated supplies	1,000
Total donations in-kind	\$ 34,178
Total operating revenue and support	\$ 528,811
OPERATING EXPENSES:	
Program services	\$ 553,701
Management and general	43,786
Fundraising	21,369
Total	\$ 618,856
Donations in-kind - See Note 7	34,178
Total operating expenses	\$ 653,034
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	\$ (124,223)
NON-OPERATING ACTIVITIES:	
Interest income	\$ 42
Gain on sale of assets	253,395
CHANGES IN NET ASSETS FROM NON-OPERATING ACTIVITIES	\$ 253,437
CHANGE IN NET ASSETS	\$ 129,214
NET ASSETS, BEGINNING OF YEAR	715,361
NET ASSETS, END OF YEAR	\$ 844,575

See independent accountant's review report and accompanying notes to financial statements.

YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	SUPPORTING ACTIVITIES				2022 Total
	Program Services	Management and General	Fundraising	Supporting Total	
Salaries and related taxes	\$ 319,631	\$ 37,604	\$ 18,802	\$ 56,406	\$ 376,037
Facilities expenses	103,906	-	-	-	103,906
Vehicle expenses	48,789	-	-	-	48,789
Professional fees	33,437	3,934	1,967	5,901	39,338
Advertising	21,313	-	-	-	21,313
Finance charges	9,124	1,047	-	1,047	10,171
Office supplies	3,881	457	228	685	4,566
Computer expenses	2,896	341	170	511	3,407
Depreciation	2,409	284	142	426	2,835
Dues and subscriptions	2,215	-	-	-	2,215
Travel and meals	1,735	-	-	-	1,735
Job-related expenses	1,575	-	-	-	1,575
Postage and delivery	1,015	119	60	179	1,194
Telephone	665	-	-	-	665
Taxes and licenses	627	-	-	-	627
Program fees	279	-	-	-	279
Gifts and sponsorships	204	-	-	-	204
Total	\$ 553,701	\$ 43,786	\$ 21,369	\$ 65,155	\$ 618,856
Donations in-kind:					
Rent	\$ 33,178	\$ -	\$ -	\$ -	\$ 33,178
Supplies	1,000	-	-	-	1,000
Total	\$ 34,178	\$ -	\$ -	\$ -	\$ 34,178
Total operating expenses	\$ 587,879	\$ 43,786	\$ 21,369	\$ 65,155	\$ 653,034

See independent accountant's review report and accompanying notes to financial statements.

YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING AND NON-OPERATING ACTIVITIES:	
Change in net assets	\$ 129,214
Adjustments to reconcile change in net assets to net cash used by operating and non-operating activities:	
Depreciation	2,835
Gain on sale of property	(253,395)
(Increase) decrease in assets:	
Other accounts receivable	306
Deposit	(700)
Increase (decrease) in liabilities:	
Accounts payable	(16,522)
Other taxes payable	865
Payroll taxes payable	(1,569)
	(1,569)
NET CASH USED BY OPERATING AND NON-OPERATING ACTIVITIES	\$ (138,966)
CASH FLOWS FROM (USED) BY INVESTING ACTIVITIES:	
Proceeds from sale of property, net	\$ 273,910
Purchase of fixed assets	(689)
	(689)
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 273,221
CASH FLOWS FROM (USED) BY FINANCING ACTIVITIES:	
Loan receivable	\$ 77,500
Forgiveness of a related party loan - See Note 4	(13,000)
Payments on a related party loan - See Note 4	(34,000)
	(34,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 30,500
NET CHANGES IN CASH	\$ 164,755
CASH - BEGINNING OF YEAR	402,932
	402,932
CASH - END OF YEAR	\$ 567,687
	567,687

SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION

Fair value of donated rent	\$ 33,178
Fair value of donated supplies	1,000
	1,000
Total donated rent and supplies	\$ 34,178
	34,178

See independent accountant's review report and accompanying notes to financial statements.

YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 - ORGANIZATION:

Youth Challenge of Hampton Roads, Inc., d/b/a Faith Recovery, (the Organization) opened in 1978, and is organized as a non-profit, non-stock corporation under the appropriate sections of the Internal Revenue Code and the laws of the Commonwealth of Virginia. The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization operates under the direction of a board of directors. Day to day management and administrative control is under the executive director who reports directly to the board of directors. The purpose of the organization is to provide rehabilitation for drug and alcohol addicted young adults in an interdenominational ministry through various outreach, prevention and family enrichment programs.

The Organization operates a thrift store in Newport News selling donated inventory consisting of home furnishings, appliances, clothing and other accessories. The thrift store receives donated items from retail businesses, individuals, and other organizations. Revenue is recognized by the Organization at the time the goods are sold; therefore, no value for the thrift store inventory is included in these financial statements. Costs associated with the operation of the thrift store are expensed in program expenses in the accompanying statement of activities and changes in net assets. All net proceeds from the operation of the thrift store help support and enhance the Organization's non-profit mission related activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, as such, recognize income when earned and expenses when incurred.

Basis of Presentation

These financial statements, presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present net assets, revenues, and expenses based on the existence or absence of donor-impaired restrictions. This has been accomplished by the classification of assets, liabilities, and net assets into two groups with donor restrictions and without donor restrictions.

These two groups are defined as follows:

- *Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.
- *Net assets with donor restrictions* - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

The Organization follows the provisions of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC).

YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Recognition of Restrictions on Assets

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the same fiscal year in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions.

Donated Goods and Services

The Organization recognizes in-kind contributions as revenue and expense in the period in which they are received. Donated materials are valued by the donor at fair market value on the date of the gift. No amounts have been reflected in the financial statements for volunteer services since they are susceptible to objective measurements or valuation. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that would otherwise be performed by paid employees, but these services do not meet the criteria for recognition as contributed services.

Accounts Receivable and Allowance for Doubtful Accounts

The Organization uses the allowance method to determine uncollectible accounts receivable. Receivables outstanding for more than 30 days are considered past due. The allowance is based on experience and management's analysis of specific contributions made. As of December 31, 2022, the account receivable balance was \$200, management believes no allowance for doubtful accounts was necessary at December 31, 2022.

Property and Equipment

Property and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. The gain or loss on items traded is applied to the asset account, and that on items otherwise disposed of is reflected in income.

Depreciation has been provided for using the MACRS (modified accelerated cost recovery system) and straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Buildings	31.5 - 39 years
Vehicles	5 - 7 years
Furniture and fixtures	5 - 10 years
Equipment	5 - 7 years

Depreciation expense for the year ended December 31, 2022, amounted to \$2,835.

Inventory

The Organization values its donated thrift store inventory in accordance with ASC 958-605-25-4, Not-for-Profit Entities - Revenue Recognition, which states that donated inventory will not be recorded in the financial statements. The Organization believes this is a reasonable approach because most of the donated items are used. Consequently, the value of such donations is not readily determinable until the merchandise is sold. Sales are recorded at the point of sale.

YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land and Real Estate

The Organization records real estate and land at cost if purchased or at the fair value on the date received if acquired through a non-cash donation.

Income Taxes

Youth Challenge of Hampton Roads, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and as a public charity under Section 509(a) of the Code, except on net income derived from unrelated business activities. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an unexempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. Currently the Organization has no obligation for any unrelated business income tax. The Organization believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements; however, any penalties and interest incurred as a result of uncertain tax positions would be recorded in general administration. The Organization's federal return of Organization Exempt from Income Tax (Form 990) for 2022, 2021, 2020, and 2019 are subject to examination by the IRS, generally for three years after they were filed.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

The Organization expenses the cost of advertising when incurred. Advertising costs amounted to \$21,313 for the year ended December 31, 2022.

Functional Allocation of Expenses

The cost of providing the Organization's various programs and services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and related taxes	Time and effort
Professional fees	Reasonable basis consistently applied
Finance charges	Reasonable basis consistently applied
Office supplies	Reasonable basis consistently applied
Computer expenses	Reasonable basis consistently applied
Depreciation	Reasonable basis consistently applied
Postage and delivery	Reasonable basis consistently applied

See independent accountant's review report. Notes continued on next page.

**YOUTH CHALLENGE OF HAMPTON ROADS, INC.
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**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less, which are neither held for nor restricted by donors for long term purposes, to be cash equivalents. Cash and highly liquid financial instruments designated by the Board of Directors, endowments that are perpetual in nature, or other long term purposes are excluded from this definition. At December 31, 2022, the Organization did not consider any of its assets to meet the definition of cash equivalents.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

NOTE 3 - LOAN RECEIVABLE

	2022
In June of 2021, the Organization sold the property located at 5100 Jefferson Avenue in the City of Newport News, VA for \$500,000 of which \$397,500 will be paid by the purchaser in 60 monthly installments of \$6,458, with no interest. The note receivable is due June 2026.	\$ 281,250
Less current portion	(77,500)
Total long-term portion	\$ 203,750

Current maturities of long-term debt are as follows:

For the year ended December 31,

2023	\$ 77,500
2024	77,500
2025	77,500
2026	48,750
Total	\$ 281,250

NOTE 4 - RELATED PARTY LOAN:

At the beginning of the current year, the Organization had a balance on a related party loan due to the prior executive director amounting to \$48,000. There were no set terms of repayment, and no interest was accrued during the life of the loan. Payments totaling \$35,000 were made during the year ended December 31, 2022. During the year ended December 31, 2022, the loan was forgiven, and the remaining balance of \$13,000 was recognized as income on the statement of activities.

See independent accountant's review report. Notes continued on next page.

YOUTH CHALLENGE OF HAMPTON ROADS, INC.
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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 5 - CONCENTRATION OF CREDIT RISK:

Financial instruments, which potentially subject the organization to concentration of credit risk, consist principally of cash and contributions. The Organization places its cash with high credit quality depositories, and its contributions are due from individuals, businesses, and various agencies. Financial instruments that potentially subject Youth Challenge of Hampton Roads, Inc. to credit risk include contributions.

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. Beginning January 1, 2013, funds deposited in a noninterest-bearing transaction account no longer will receive unlimited deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). All of a depositor's accounts at an insured depository institution, including all non-interest bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000, for each deposit insurance ownership category. As of December 31, the Organization had \$218,936 in demand deposits on hand in financial institutions which exceeded depositor's insurance provided by the applicable guaranty agency.

NOTE 6 - LIQUIDITY AND AVAILABILITY:

The following represents the Organization's financial assets at December 31, 2022:

Financial assets at year end:

Cash	\$ 567,687
Other accounts receivable	200

Financial assets available to meet general expenditures within one year

\$ 567,887

The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

NOTE 7 - DONATED GOODS AND SERVICES:

The Organization records the value of donated goods and services when there is an objective basis available to measure their value. Donations in-kind are reported as contributions at their estimated fair value on the date of receipt and reported as expenses when utilized. Donations in-kind are not sold and are only distributed for program use.

The Organization sold the facility they used as an office and shelter. They are leasing back the facility, under a no rent lease temporarily, until they can find a new location to relocate to. The no rent lease is recorded as in-kind. The lease term was originally for four years starting in 2021. The lease terminated on December 31, 2022, see note 9. The Organization had occupancy in-kind income and expense of \$33,178 for the year ended December 31, 2022.

The Organization received in-kind supplies, with a fair market value of \$1,000. They were used in the various programs conducted by the Organization for the year ended December 31, 2022.

**YOUTH CHALLENGE OF HAMPTON ROADS, INC.
d/b/a FAITH RECOVERY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 8 - NEW ACCOUNTING PRONOUNCEMENTS:

The Financial Accounting Standard Board (FASB) issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Asset, which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The Organization adopted and implemented this pronouncement on January 1, 2022, using the prospective method of application. The standard did not have a material impact on the financial statements. The organization has updated disclosures as necessary.

NOTE 9 - SUBSEQUENT EVENTS:

On January 27, 2023, the Organization purchased a new facility and acquired a loan of \$533,675.

Subsequent events were evaluated through May 25, 2023, which is the date the financial statements were available to be issued. No other events requiring disclosure have occurred subsequent to the statements of financial position date and through May 25, 2023, that would require adjustment to, or disclosure in, the financial statements.