THE CHILD AND FAMILY NETWORK CENTERS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2016 AND 2015

Halt Buzas & Powell, LTD
CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Child and Family Network Centers
Alexandria, Virginia

We have audited the accompanying financial statements of The Child and Family Network Centers (the Organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2016 and 2015, 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 Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses (pages 18 - 19) are presented for purposes of additional analysis and are 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 audits 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.

Halt, Buzas & Powell, Ltd.

Alexandria, Virginia
December 14, 2016

THE CHILD AND FAMILY NETWORK CENTERS

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash	$ 29,358	$ 164,109
Accounts receivable	23,690	325
Pledges receivable, net	207,114	490,476
Prepaid expenses	27,861	844
Common stock	12	2,570
Property and equipment, net	2,207,571	2,263,634
Total assets	$ 2,495,606	$ 2,921,958
LIABILITIES AND NET ASSETS		
Bank line of credit	$ 199,384	$ 199,384
Accounts payable	14,628	26,850
Accrued payroll and related compensation	54,492	119,622
Note payable	1,130,612	1,157,040
Total liabilities	1,399,116	1,502,896
Net assets:		
Unrestricted	1,096,490	1,419,062
Total net assets	1,096,490	1,419,062
Total liabilities and net assets	$ 2,495,606	$ 2,921,958

See accompanying notes to the financial statements.

THE CHILD AND FAMILY NETWORK CENTERS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Government grants - Commonwealth of Virginia	$ 578,009	$ -	$ 578,009
Government grants - Local	562,946	-	562,946
Individual and community group contributions	332,235	-	332,235
Foundation grants	276,886	-	276,886
In-kind contributions	84,704	-	84,704
Other income	56,826	-	56,826
Corporate contributions	25,695	-	25,695
Interest and dividend income	10	-	10
Unrealized loss	(344)	-	(344)
Total revenues	1,916,967	-	1,916,967
Expenses:			
Program services	1,611,041	-	1,611,041
Support services:			
Management and general	392,834	-	392,834
Development and fundraising	235,664	-	235,664
Total support services	628,498	-	628,498
Total expenses	2,239,539	-	2,239,539
Change in net assets	(322,572)	-	(322,572)
Net assets, beginning of year	1,419,062	-	1,419,062
Net assets, end of year	$ 1,096,490	$ -	$ 1,096,490

See accompanying notes to the financial statements.

THE CHILD AND FAMILY NETWORK CENTERS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Foundation grants	$ 820,700	$ -	$ 820,700
Individual and community group contributions	755,093	-	755,093
Government grants - Commonwealth of Virginia	675,127	-	675,127
Government grants - Local	418,445	-	418,445
In-kind contributions	194,300	-	194,300
Corporate contributions	35,215	-	35,215
Other income	40,907	-	40,907
Interest and dividend income	103	-	103
Unrealized loss	(193)	-	(193)
Net assets released from restrictions:			
Satisfaction of donor restrictions	454,615	(454,615)	-
Total revenues	3,394,312	(454,615)	2,939,697
Expenses:			
Program services	1,750,164	-	1,750,164
Support services:			
Management and general	395,023	-	395,023
Development and fundraising	303,815	-	303,815
Total support services	698,838	-	698,838
Total expenses	2,449,002	-	2,449,002
Change in net assets	945,310	(454,615)	490,695
Net assets, beginning of year	473,752	454,615	928,367
Net assets, end of year	$ 1,419,062	$ -	$ 1,419,062

See accompanying notes to the financial statements.

THE CHILD AND FAMILY NETWORK CENTERS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (322,572)	$ 490,695
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Bad debt	-	8,000
Depreciation and amortization	56,063	54,270
Donated common stock	(15,742)	-
Unrealized loss on investments	344	193
Decrease (increase) in assets:		
Accounts receivable	(23,365)	(325)
Grants receivable	-	1,200
Pledges receivable, net	283,362	(262,843)
Prepaid expenses	(27,017)	7,314
Deposit	-	458
Increase (decrease) in liabilities:		
Accounts payable	(12,222)	(13,226)
Accrued payroll and related compensation	(65,130)	10,047
Other liabilities	-	(1,717)
Total adjustments	196,293	(196,629)
Net cash (used in) provided by operating activities	(126,279)	294,066
Cash flows from investing activities:		
Purchases of property and equipment	-	(178,629)
Proceeds from sales of donated common stock	17,956	2,219
Net cash provided by (used in) investing activities	17,956	(176,410)
Cash flows from financing activities:		
Advances on bank line of credit	-	389
Principal payments on note payable	(26,428)	(25,268)
Proceeds from related party loan	35,000	-
Principal payments on loan from related party	(35,000)	(10,000)
Net cash used in financing activities	(26,428)	(34,879)
Net (decrease) increase in cash	(134,751)	82,777
Cash, beginning of year	164,109	81,332
Cash, end of year	$ 29,358	$ 164,109

-- continued --

See accompanying notes to the financial statements.

THE CHILD AND FAMILY NETWORK CENTERS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Supplemental disclosures of cash flow information:		
Interest paid	$ 68,132	$ 69,049

See accompanying notes to the financial statements.

THE CHILD AND FAMILY NETWORK CENTERS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. Organization

Based in Alexandria, Virginia, The Child and Family Network Centers (the Organization) provides bilingual, high-quality, free education and intensive social services to at-risk children and families, the working poor with no benefits, to prepare and empower them for success in school and life. The Organization changes the trajectory of poverty by decreasing key risk factors. Over 125 children and families are on the Organization's waiting list. For the years ended June 30, 2016 and 2015, the Organization offered preschool and comprehensive services at five sites- eight classrooms in 2016 and nine classrooms in 2015.

The Organization was started in 1984 by a group of mothers living in a public housing community after they learned that 17 of their children failed kindergarten. From that modest beginning, the Organization has continuously expanded both the reach and depth of its services to address community needs. The Organization's health, comprehensive social services and full-day preschool offer a blueprint for stabilization and success. The Organization decreases key risk factors of poverty for Alexandria's most vulnerable children and families. Currently, nearly 150 children and their families benefit from the Organization's comprehensive programs, which are all designed to support its mission to provide caring, high-quality, free education and related services to at-risk children and their families in their own neighborhoods in order to prepare them for success in school and life.

2. Summary of significant accounting policies

Basis of accounting

The Organization's financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when obligations are incurred.

Basis of presentation

The Organization's financial statements are presented in accordance with generally accepted accounting principles for nonprofit organizations. Under those principles, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets represent resources that are not subject to donor imposed stipulations and are available for operations at management's discretion.

Temporarily Restricted Net Assets represent resources restricted by donors as to purpose or by the passage of time.

Permanently Restricted Net Assets represent resources whose use by the Organization is limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of the Organization. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

The Organization has no temporarily or permanently restricted net assets at June 30, 2016 and 2015.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and their functional allocation during the reporting period. Actual results could differ from those estimates.

Fair value measurements

The Organization reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs used to measure fair value are categorized as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities.
- Level 2 - inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.
- Level 3 - unobservable inputs which are typically based on the Organization's own assumptions, as there is little, if any, related market activity.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no Level 2 and 3 inputs for any assets held by the Organization at June 30, 2016 and 2015.

Income taxes

The Organization is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on income derived from activities related to its exempt purpose. This code section enables the Organization to accept donations that qualify as charitable contributions to the donor. The Organization is subject to income taxes on taxable income from unrelated business activities. For the years ended June 30, 2016 and 2015, the Organization did not recognize income tax expense in the accompanying financial statements as there was no unrelated business taxable income.

The Organization is not aware of any activities that would jeopardize their tax-exempt status that would require recognition in the accompanying financial statements. Generally, tax returns are subject to examination by taxing authorities for up to three years from the date a completed return is filed. If there are material omissions of income, tax returns may be subject to examination for up to six years. It is the Organization’s policy to recognize interest and/or penalties related to uncertain tax positions, if any, in the accompanying financial statements. As of June 30, 2016 and 2015, the Organization had no uncertain tax positions which should be recognized as a liability.

Accounts receivable

Accounts receivable are due in less than one year and stated at their net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At June 30, 2016 and 2015, management estimates that all receivables are fully collectible.

Pledges receivable, net

Pledges receivable are unconditional promises to give that are recognized as pledges when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at their net realizable value. Amounts that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The cash flows are discounted at a discount rate commensurate with the risk involved. Amortization of the resulting discount is recognized as additional contribution revenue. Reserves are established for pledges receivable that are delinquent and considered uncollectible based on periodic reviews by management. At June 30, 2016 and 2015, the allowance for doubtful accounts totaled $126 and $3,347, respectively.

Property and equipment, net

Property and equipment acquisitions are recorded in the financial statements at cost, net of accumulated depreciation and amortization. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	39 years
Computer equipment and software	5 years
Furniture and fixtures	5 - 12 years
Building improvements	39 years
Playground	10 years

The Organization's policy is to capitalize major additions and improvements over $1,000. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

Revenue recognition

Contributions

Contributions and certain foundation grants are recognized as revenue when received or promised and are recorded net of any current year allowance or discount activity. The Organization reports gifts of cash and other assets as temporarily restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to the Organization's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as unrestricted if the restriction expires in the same reporting period in which the contribution is recognized.

Grants

Grant revenue that is considered an exchange transaction is recognized as earned when the qualifying costs are incurred. Amounts received in advance are recorded as deferred revenue in the accompanying statements of financial position.

In-kind contributions

Donated services and use of facilities are recorded at fair value when an unconditional commitment is received and are recognized as in-kind contributions as revenue and expense in the accompanying financial statements. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of such services is recorded based on the estimated fair value of services provided and is classified as in-kind contributions revenue and expense charged to programs and supporting services based on the program or support services directly benefited.

Functional allocation of expenses

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

Reclassification

For comparative purposes, certain 2015 amounts have been reclassified to conform to the 2016 presentation.

3. Pledges receivable, net

Pledges receivable consist of unconditional promises to give principally for the Organization's Capital Campaign and are summarized as follows:

	2016	2015
Unconditional promises to give expected to be collected in:		
Less than one year	$ 188,884	$ 255,330
One to five years	20,885	240,070
Total	209,769	495,400
Less:		
Allowance for uncollectible amounts	(126)	(3,347)
Discount to present value (.58% and .64% interest rate)	(2,529)	(1,577)
Pledges receivable, net	$ 207,114	$ 490,476

4. Common stock

The Organization received unrestricted donated common stock in 2015 and recorded the donation at fair value based on quoted market prices at the time of receipt. Fair value is measured using Level 1 inputs and at June 30, 2016 and 2015 had a fair value of $12 and $2,570, respectively.

5. Property and equipment, net

The following is a summary of property and equipment held at June 30:

	2016	2015
Building	$ 998,243	$ 998,243
Computer equipment and software	23,702	23,702
Furniture and fixtures	32,600	32,600
Building improvements	1,090,102	1,090,102
Playground	25,163	25,163
Land	240,000	240,000
Property and equipment	2,409,810	2,409,810
Accumulated depreciation and amortization	(202,239)	(146,176)
Total property and equipment, net	$ 2,207,571	$ 2,263,634

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 was $56,063 and $54,270, respectively.

6. Commitments

Operating leases

During the year ended June 30, 2014, the Organization entered into a lease for classroom space in Alexandria, Virginia. The lease term ends August 14, 2017. Monthly rent payments begin at $1,260 and increase throughout the length of the lease.

During the year ended June 30, 2016, the Organization entered into two single year agreements for classroom space in Alexandria, Virginia. The lease terms end June 30, 2017 and have annual rental payments of $20,000 and $7,500.

Aggregate future minimum lease payments are as follows for the years ending June 30:

2017	$ 44,071
2018	2,084
Total	$ 46,155

Bank line of credit

The Organization maintains a $200,000 line of credit that carries an interest rate equal to the prime rate announced by the bank plus 1.25%, which was at 4.75% at June 30, 2016 and 2015. The line of credit is automatically renewed annually and is secured by all funds held in the same institution. At June 30, 2016 and 2015, the Organization had a balance due in the amount of $199,384 for each year.

Loans from related parties

During the year ended June 30, 2016, one board member advanced funds to the Organization for operational purposes. The loan was unsecured and interest on the loan was donated as in-kind to the Organization. The loan was paid in full in March 2016 and there is no balance due at June 30, 2016.

Note payable

The Organization entered into a $1,200,000 note payable in connection with the acquisition and construction of a new facility during the year ended June 30, 2013. The note carries an interest rate of 5.05%, is secured by the facility, and matures on September 30, 2038. Monthly interest only payments for the note began on July 1, 2013, which changed to monthly payments of principal and interest on November 1, 2013 in the amount of $7,102. At June 30, 2016 and 2015, the note payable had a balance due in the amount of $1,130,612 and $1,157,040, respectively.

Aggregate future maturities of the note payable are as follows for the years ending June 30:

2017	$ 28,006
2018	29,474
2019	31,019
2020	32,498
2021	34,348
2022 and thereafter	975,267
Total	$ 1,130,612

7. Temporarily restricted net assets

Net assets were released from donor restrictions during the years ended June 30, 2016 and 2015 for the following purposes:

	2016	2015
Capital campaign (building acquisition and maintenance)	$ -	$ 394,615
Time restriction	-	60,000
Total net assets released from restrictions	$ -	$ 454,615

At June 30, 2016 and 2015, no net assets were temporarily restricted for specific purposes.

8. In-kind contributions

The Organization has entered into lease agreements with the City of Alexandria for classroom space. The classrooms used at the Cora Kelly Recreation Center were leased to the Organization for $10 per year until August 1, 2015 when the Organization started to pay an annual rent of $20,000. The fair value of the space was estimated at $20,000 and 50,000, respectively for years ended June 30, 2016 and 2015. The classrooms used at the Charles Houston Recreation Center were leased to the Organization for $10 per year until August 1, 2015 when the Organization started to pay an annual rent of $20,000. The fair value of the space was estimated at $20,000 and 50,000 for years ended June 30, 2016 and 2015, respectively. The classroom used at the Cora Kelly Elementary School is provided to the Organization at no cost. The fair value of the space is estimated at $20,000 and 25,000 for years ended June 30, 2016 and 2015, respectively. The classroom used at the Arlandria - Chirilagua Housing Cooperative is provided to the Organization at no cost. The fair value of the space is estimated at $14,400 and 25,000 for years ended June 30, 2016 and 2015.

In 2014, the Organization entered into lease agreements for 3801 Mount Vernon Avenue and Notabene classroom spaces in Alexandria, Virginia. The fair value of the Mount Vernon space was estimated at $10,000 for year ended June 30, 2015. The fair value of the Notabene space was estimated at $19,500 for year ended June 30, 2015. The lease at Notabene site ended at June 30, 2015 and was not renewed.

Total fair value of donated space, which is recognized as in-kind contributions in the accompanying statements of activities, was $74,400 and $179,500 for the years ended June 30, 2016 and 2015. Also included as in-kind contributions is school supplies totaling $10,304 for the year ended June 30, 2016, and playground equipment totaling $14,800 in connection with the acquisition of the new facility for the year ended June 30, 2015.

9. Subsequent events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 14, 2016, which is the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.

SUPPLEMENTAL INFORMATION

THE CHILD AND FAMILY NETWORK CENTERS
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program services	Management and general	Development and fundraising	Total support services	Total expenses
Payroll expenses	$ 1,060,348	$ 130,221	$ 112,941	$ 243,162	$ 1,303,510
Operations	9,023	13,879	12,098	25,977	35,000
Fringe benefits	97,771	12,007	10,414	22,421	120,192
Consultants and professional fees	117,686	69,908	58,065	127,973	245,659
Interest	29,314	29,047	9,771	38,818	68,132
Travel	892	166	365	531	1,423
Facilities and equipment	81,416	31,794	2,213	34,007	115,423
Classroom meals	122,657	-	-	-	122,657
Taxes and licenses	2,851	1,543	-	1,543	4,394
Training and development	67	545	-	545	612
In-kind expenses	84,704	-	-	-	84,704
Advertising	86	102	1,658	1,760	1,846
Insurance	-	24,357	-	24,357	24,357
Depreciation and amortization	-	56,063	-	56,063	56,063
Computer and IT expenses	-	16,158	-	16,158	16,158
Bank fees and charges	1,765	6,838	153	6,991	8,756
Field trips	1,400	-	-	-	1,400
Fundraising expenses	-	-	27,986	27,986	27,986
Licenses and fees	675	-	-	-	675
Moving expenses	336	-	-	-	336
Gifts	50	146	-	146	196
Donations	-	60	-	60	60
Total expenses	$ 1,611,041	$ 392,834	$ 235,664	$ 628,498	$ 2,239,539

THE CHILD AND FAMILY NETWORK CENTERS

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	Program services	Management and general	Development and fundraising	Total support services	Total expenses
Payroll expenses	$ 1,107,197	$ 162,293	$ 217,292	$ 379,585	$ 1,486,782
Operations	48,841	25,586	14,397	39,983	88,824
Fringe benefits	96,465	14,140	18,932	33,072	129,537
Consultants and professional fees	34,863	72,608	16,230	88,838	123,701
Interest	6,095	3,002	-	3,002	9,097
Travel	-	496	-	496	496
Facilities and equipment	21,273	21,148	-	21,148	42,421
Supplies	530	1,024	-	1,024	1,554
Classroom meals	139,664	-	-	-	139,664
Taxes and licenses	-	2,212	-	2,212	2,212
Training and development	4,057	640	4,158	4,798	8,855
In-kind expenses	194,300	-	-	-	194,300
Advertising	920	-	297	297	1,217
Food services	6,025	-	-	-	6,025
Insurance	-	24,785	-	24,785	24,785
Mortgage expenses	40,168	19,784	-	19,784	59,952
Depreciation and amortization	36,361	17,909	-	17,909	54,270
Computer and IT expenses	101	18,215	-	18,215	18,316
Bank fees and charges	-	4,733	-	4,733	4,733
Field trips	4,257	-	-	-	4,257
Fundraising expenses	-	-	23,930	23,930	23,930
Licenses and fees	3,300	2,747	-	2,747	6,047
Moving expenses	1,669	-	-	-	1,669
Gifts	4,078	75	579	654	4,732
Bad debt	-	-	8,000	8,000	8,000
Penalties	-	809	-	809	809
Miscellaneous	-	2,817	-	2,817	2,817
Total expenses	$ 1,750,164	$ 395,023	$ 303,815	$ 698,838	$ 2,449,002