The Child and Family Network Centers

Financial Statements
and
Independent Auditors' Report

June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 17 - 18) 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.

Alexandria, Virginia
[DATE TBD]

The Child and Family Network Centers

Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
Assets		
Cash	$ 416,922	$ 380,342
Contributions receivable	-	58,932
Capital Campaign contributions receivable, net	13,963	45,007
Prepaid expenses	25,834	27,253
Investments	199,987	-
Property and equipment, net	2,107,134	2,164,405
Total assets	$ 2,763,840	$ 2,675,939
Liabilities and Net Assets		
Bank line of credit	$ 156,021	$ 199,384
Accounts payable	28,859	9,284
Accrued payroll and related compensation	77,647	69,796
Note payable	1,073,344	1,103,072
Deferred revenue	-	5,482
Total liabilities	1,335,871	1,387,018
Net assets:		
Unrestricted	1,383,089	1,264,550
Temporarily restricted	44,880	24,371
Total net assets	1,427,969	1,288,921
Total liabilities and net assets	$ 2,763,840	$ 2,675,939

See accompanying notes to the financial statements.

The Child and Family Network Centers

Statement of Activities

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Government grants - Local	$ 500,550	$ -	$ 500,550
Government grants - Commonwealth of Virginia	559,795	-	559,795
Individual and community group contributions	367,213	30,000	397,213
Foundation grants	349,352	14,880	364,232
Corporate contributions	82,120	-	82,120
In-kind contributions	57,943	-	57,943
Other income	34,006	-	34,006
Interest and dividend income	3	-	3
Unrealized loss	(13)	-	(13)
Net assets released from restrictions:			
Satisfaction of donor restrictions	24,371	(24,371)	-
Total revenues	1,975,340	20,509	1,995,849
Expenses:			
Program services	1,502,906	-	1,502,906
Support services:			
Management and general	161,637	-	161,637
Development and fundraising	192,258	-	192,258
Total support services	353,895	-	353,895
Total expenses	1,856,801	-	1,856,801
Change in net assets	118,539	20,509	139,048
Net assets, beginning of year	1,264,550	24,371	1,288,921
Net assets, end of year	$ 1,383,089	$ 44,880	$ 1,427,969

See accompanying notes to the financial statements.

The Child and Family Network Centers

Statement of Activities

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Government grants - Local	$ 601,100	$ -	$ 601,100
Government grants - Commonwealth of Virginia	526,333	-	526,333
Individual and community group contributions	357,881	-	357,881
Foundation grants	364,064	24,371	388,435
Corporate contributions	119,737	-	119,737
In-kind contributions	62,633	-	62,633
Other income	31,455	-	31,455
Interest and dividend income	3	-	3
Realized loss	(4)	-	(4)
Total revenues	2,063,202	24,371	2,087,573
Expenses:			
Program services	1,429,798	-	1,429,798
Support services:			
Management and general	225,642	-	225,642
Development and fundraising	239,702	-	239,702
Total support services	465,344	-	465,344
Total expenses	1,895,142	-	1,895,142
Change in net assets	168,060	24,371	192,431
Net assets, beginning of year	1,096,490	-	1,096,490
Net assets, end of year	$ 1,264,550	$ 24,371	$ 1,288,921

The Child and Family Network Centers

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 139,048	$ 192,431
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	58,658	54,753
Donated common stock	-	(19,755)
Unrealized loss on investments	13	-
Realized loss on investments	-	4
Decrease (increase) in assets:		
Contributions receivable	58,932	(35,242)
Capital Campaign contributions receivable, net	31,044	162,107
Prepaid expenses	1,419	608
Increase (decrease) in liabilities:		
Accounts payable	19,575	(5,344)
Accrued payroll and related compensation	7,851	15,304
Deferred revenue	(5,482)	5,482
Total adjustments	172,010	177,917
Net cash provided by operating activities	311,058	370,348
Cash flows from investing activities:		
Purchases of property and equipment	(1,387)	(11,587)
Purchases of investments	(200,000)	(100)
Proceeds from sales of donated common stock	-	19,863
Net cash (used in) provided by investing activities	(201,387)	8,176
Cash flows from financing activities:		
Principal payments on note payable	(29,728)	(27,540)
Principal payments on line of credit	(43,363)	-
Net cash used in financing activities	(73,091)	(27,540)
Net increase in cash	36,580	350,984
Cash, beginning of year	380,342	29,358
Cash, end of year	$ 416,922	$ 380,342
Supplemental disclosures of cash flow information:		
Interest paid	$ 64,928	$ 67,415

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, 2018 and 2017, the Organization offered preschool and comprehensive services at five sites - eight classrooms.

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

a. 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 permanently restricted net assets at June 30, 2018 and 2017.

b. 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.

c. 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.

d. 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 3 Inputs for any assets held by the Organization at June 30, 2018. There were no assets held by the Organization at June 30, 2017 that were subject to the standard.

e. 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, 2018 and 2017, 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, 2018 and 2017, the Organization had no uncertain tax positions which should be recognized as a liability.

f. Contributions receivable, net

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions 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 contributions receivable that are delinquent and considered uncollectible based on periodic reviews by management. For the year ended June 30, 2018, there was no allowance for doubtful accounts. For the year ended June 30, 2017, the allowance for doubtful accounts totaled $126.

g. Investments

Investments are reported at fair value and realized and unrealized gains and losses are reported in the statements of activities as increases or decreases in unrestricted net assets, unless the income or loss is restricted temporarily or permanently by donor restrictions or law. The Organization invests in a variety of investments that are exposed to various risks, such as fluctuations in market value and credit risk. It is reasonably possible that changes in risks in the near term could materially affect investment balances and amounts reported in the accompanying financial statements.

h. 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.

i. Revenue recognition

i. Contributions

Contributions and certain foundation and corporate 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.

ii. Grants

Grant and contract revenue 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.

iii. In-kind contributions

Donated materials, 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.

j. 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.

3. Concentrations of Credit Risk

The Organization maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2018 and 2017, the Organization had bank deposits in excess of FDIC limits of $73,520 and $130,618, respectively.

4. Capital Campaign Contributions Receivable, Net

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

	2018	2017
Unconditional promises to give expected to be collected in:		
Less than one year	$ 13,963	$ 42,174
One to five years	-	3,000
Total	13,963	45,174
Less:		
Allowance for uncollectible amounts	-	(126)
Discount to present value (0% and 1.38% interest rate)	-	(41)
Capital Campaign contributions receivable, net	$ 13,963	$ 45,007

5. Investments and Fair Value Measurements

Investments are comprised of the following at June 30:

	2018 Cost	2018 Fair Value	2017 Cost	2017 Fair Value
Money market	$ 50,000	$ 50,000	$ -	$ -
Certificates of deposits	150,000	149,987	-	-
Total investments	$ 200,000	$ 199,987	$ -	$ -

The table below presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2018:

	Level 1	Level 2	Total
Money market	$ 50,000	$ -	$ 50,000
Certificates of deposits	-	149,987	149,987
Total investments	$ 50,000	$ 149,987	$ 199,987

6. Property and Equipment, Net

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

	2018	2017
Building	$ 998,243	$ 998,243
Computer equipment and software	17,449	35,289
Furniture and fixtures	14,049	32,600
Building improvements	1,090,102	1,090,102
Playground	25,163	25,163
Land	240,000	240,000
Property and equipment	2,385,006	2,421,397
Accumulated depreciation and amortization	(277,872)	(256,992)
Total property and equipment, net	$ 2,107,134	$ 2,164,405

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was $58,658 and $54,753, respectively.

7. 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 ended in August 2017 and the Company renewed the lease for a term of three years. The lease calls for monthly rental payment of $1,459 and will expire in August 2020.

During the year ended June 30, 2016, the Organization entered into two single year agreements for classroom space in Alexandria, Virginia. The lease terms ended and were extended during the year ended June 30, 2017. The extended lease terms ended June 30, 2018. For the years ended June 30, 2018 and 2017, the annual rent payments are $20,000 and $7,500 for each year.

Rent expense for the years ended June 30, 2018 and 2017 was $67,610 and $113,051, respectively.

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

2019	$ 17,503
2020	17,503
2021	2,188
Total	$ 37,194

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 6.25% and 5.50% at June 30, 2018 and 2017, respectively. The line of credit is automatically renewed annually and is secured by all funds held in the same institution. At June 30, 2018 and 2017, the Organization had a balance due in the amount of $156,021 and $199,384, respectively. On August 30, 2017, the Organization replaced its line of credit with a term note from the same bank, payable in equal monthly installments of $2,194 over ten years. The interest rate is fixed at 5.65% and the loan is secured by all deposits held by the bank.

8. Notes 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, 2018 and 2017, the note payable had a balance due of $1,073,344 and $1,103,072, respectively.

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

2019	$ 31,744
2020	32,498
2021	34,348
2022	36,148
2023	38,044
2024 and thereafter	900,562
Total	$ 1,073,344

9. Temporarily restricted net assets

Net assets were released from donor restrictions in the amount of $24,371, for the year ended June 30, 2018 for information technology improvements. No net assets were released from donor restrictions for the year ended June 30, 2017.

At June 30, 2018 and 2017, temporarily restricted net assets were available for the following purposes:

	2018	2017
Information technology improvements	$ -	$ 24,371
Creative curriculum	14,859	-
Classroom supplies	21	-
Time restriction	30,000	-
Total temporarily restricted net assets	$ 44,880	$ 24,371

10. 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 donated space was estimated at $7,330 and $20,000 for the years ended June 30, 2018 and 2017, respectively. The classroom used at the Cora Kelly Elementary School is provided to the Organization at no cost. The fair value of the donated space is estimated at $3,666 and $20,000 for the years ended June 30, 2018 and 2017, 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 $11,000 and $14,400 for the years ended June 30, 2018 and 2017, respectively.

Total fair value of donated space, which is recognized as in-kind contributions in the accompanying statements of activities, was $21,996 and $54,400 for the years ended June 30, 2018 and 2017, respectively. Also included as in-kind contributions are school supplies and student assistance totaling $35,947 and $8,233, for the years ended June 30, 2018 and 2017, respectively.

11. Subsequent Events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through [DATE TBD], 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, 2018

	Program services	Management and general	Development and fundraising	Total support services	Total expenses
Payroll expenses	$ 951,391	$ 22,579	$ 81,487	$ 104,066	$ 1,055,457
Fringe benefits	101,052	2,398	8,655	11,053	112,105
Training and development	43,500	100	72	172	43,672
Consultants and professional fees	30,531	79,312	4,965	84,277	114,808
Computer and IT expenses	25,220	4,425	1,581	6,006	31,226
Facilities and equipment	35,579	14,917	598	15,515	51,094
Depreciation and amortization	52,874	1,255	4,529	5,784	58,658
Rent, including in-kind rent	67,610	-	-	-	67,610
Operating expenses	15,483	9,026	8,992	18,018	33,501
Classroom meals	116,674	-	-	-	116,674
Insurance	16,382	645	2,129	2,774	19,156
Taxes and licenses	4,327	552	-	552	4,879
Bank fees and charges	203	5,347	4,006	9,353	9,556
Travel	1,135	231	-	231	1,366
Interest	33,311	20,466	11,151	31,617	64,928
Cleaning supplies	19	-	-	-	19
Annual Gala	-	-	34,318	34,318	34,318
Licenses and fees	875	95	-	95	970
Moving expenses	429	-	-	-	429
Gifts	139	289	-	289	428
In-kind supplies and assistance	6,172	-	29,775	29,775	35,947
Total expenses	$ 1,502,906	$ 161,637	$ 192,258	$ 353,895	$ 1,856,801

The Child and Family Network Centers

Schedule of Functional Expenses

For the Year Ended June 30, 2017

	Program services	Management and general	Development and fundraising	Total support services	Total expenses
Payroll expenses	$ 894,054	$ 78,490	$ 118,718	$ 197,208	$ 1,091,262
Fringe benefits	101,846	9,273	13,524	22,797	124,643
Training and development	958	675	4,402	5,077	6,035
Consultants and professional fees	31,438	71,456	29,947	101,403	132,841
Computer and IT expenses	18,607	3,811	3,400	7,211	25,818
Facilities and equipment	28,639	5,716	8,336	14,052	42,691
Depreciation and amortization	41,065	5,568	8,120	13,688	54,753
Rent, including in-kind rent	113,051	-	-	-	113,051
Operating expenses	11,269	22,519	6,654	29,173	40,442
Classroom meals	117,761	-	-	-	117,761
Insurance	14,113	3,495	5,096	8,591	22,704
Taxes and licenses	957	1,523	838	2,361	3,318
Bank fees and charges	-	4,643	1,251	5,894	5,894
Travel	1,784	259	-	259	2,043
Interest	50,561	8,427	8,427	16,854	67,415
Cleaning supplies	-	11	-	11	11
Annual Gala	-	-	30,937	30,937	30,937
Licenses and fees	1,498	1,162	-	1,162	2,660
Moving expenses	22	149	-	149	171
Gifts	425	211	52	263	688
In-kind supplies and assistance	-	8,233	-	8,233	8,233
Miscellaneous	-	21	-	21	21
Field trips	1,750	-	-	-	1,750
Total expenses	$ 1,429,798	$ 225,642	$ 239,702	$ 465,344	$ 1,895,142