

*The Child and Family Network Centers*

Financial Statements  
and  
Independent Auditors' Report

June 30, 2019 and 2018



**Halt Buzas & Powell, LTD**

TRUST, INTEGRITY AND A COMMITMENT TO YOUR SUCCESS

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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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2019 and 2018, 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.

*Halt, Buzas & Powell, Ltd.*

Alexandria, Virginia  
November 4, 2019

**The Child and Family Network Centers**  
**Statements of Financial Position**  
**June 30, 2019 and 2018**

	2019	2018
<b>Assets</b>		
Cash	\$ 616,776	\$ 416,922
Accounts receivable	40,697	-
Capital Campaign contributions receivable	-	13,963
Prepaid expenses	6,753	25,834
Investments	203,900	199,987
Property and equipment, net	2,050,347	2,107,134
Construction in process	6,778	-
Other assets	2,000	-
Total assets	\$ 2,927,251	\$ 2,763,840
 <b>Liabilities and Net Assets</b>		
Accounts payable	\$ 26,189	\$ 28,859
Accrued payroll and related compensation	45,591	77,647
Deferred revenue	7,222	-
Bank term note	-	156,021
Note payable	1,042,201	1,073,344
Total liabilities	1,121,203	1,335,871
Net assets:		
Without donor restrictions	1,777,820	1,383,089
With donor restrictions	28,228	44,880
Total net assets	1,806,048	1,427,969
Total liabilities and net assets	\$ 2,927,251	\$ 2,763,840

See accompanying notes to the financial statements.

3.

**The Child and Family Network Centers**  
**Statement of Activities**  
**For the Year Ended June 30, 2019**

	Without donor restrictions	With donor restrictions	Total
<b>Revenues:</b>			
Government grants - Commonwealth of Virginia	\$ 642,605	\$ -	\$ 642,605
Government grants - Local	612,376	-	612,376
Foundation grants	389,793	14,930	404,723
Individual and community group contributions	388,955	6,100	395,055
Corporate contributions	115,554	7,000	122,554
In-kind contributions	66,480	-	66,480
Program fees	38,295	-	38,295
Interest income	6,847	-	6,847
Other income	4,648	-	4,648
Unrealized gain	250	-	250
Net assets released from restrictions:			
Satisfaction of donor restrictions	<u>44,682</u>	<u>(44,682)</u>	<u>-</u>
Total revenues	<u>2,310,485</u>	<u>(16,652)</u>	<u>2,293,833</u>
<b>Expenses:</b>			
Program services	<u>1,595,501</u>	<u>-</u>	<u>1,595,501</u>
Support services:			
Development and fundraising	149,067	-	149,067
Management and general	<u>171,186</u>	<u>-</u>	<u>171,186</u>
Total support services	<u>320,253</u>	<u>-</u>	<u>320,253</u>
Total expenses	<u>1,915,754</u>	<u>-</u>	<u>1,915,754</u>
Change in net assets	394,731	(16,652)	378,079
Net assets, beginning of year	<u>1,383,089</u>	<u>44,880</u>	<u>1,427,969</u>
Net assets, end of year	<u>\$ 1,777,820</u>	<u>\$ 28,228</u>	<u>\$ 1,806,048</u>

See accompanying notes to the financial statements.

4.

**The Child and Family Network Centers**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

	Without donor restrictions	With donor restrictions	Total
<b>Revenues:</b>			
Government grants - Commonwealth of Virginia	\$ 559,795	\$ -	\$ 559,795
Government grants - Local	500,550	-	500,550
Foundation grants	349,352	14,880	364,232
Individual and community group contributions	367,213	30,000	397,213
Corporate contributions	82,120	-	82,120
In-kind contributions	57,943	-	57,943
Program fees	33,726	-	33,726
Interest income	33	-	33
Other income	250	-	250
Unrealized loss	(13)	-	(13)
Net assets released from restrictions:			
Satisfaction of donor restrictions	<u>24,371</u>	<u>(24,371)</u>	<u>-</u>
Total revenues	<u>1,975,340</u>	<u>20,509</u>	<u>1,995,849</u>
<b>Expenses:</b>			
Program services	<u>1,502,906</u>	<u>-</u>	<u>1,502,906</u>
Support services:			
Development and fundraising	192,258	-	192,258
Management and general	<u>161,637</u>	<u>-</u>	<u>161,637</u>
Total support services	<u>353,895</u>	<u>-</u>	<u>353,895</u>
Total expenses	<u>1,856,801</u>	<u>-</u>	<u>1,856,801</u>
Change in net assets	118,539	20,509	139,048
Net assets, beginning of year	<u>1,264,550</u>	<u>24,371</u>	<u>1,288,921</u>
Net assets, end of year	<u>\$ 1,383,089</u>	<u>\$ 44,880</u>	<u>\$ 1,427,969</u>

See accompanying notes to the financial statements.

5.

**The Child and Family Network Centers**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2019**

	<u>Program services</u>	<u>Development and fundraising</u>	<u>Management and general</u>	<u>Total support services</u>	<u>Total expenses</u>
Payroll expenses	\$ 1,015,993	\$ 77,655	\$ 29,746	\$ 107,401	\$ 1,123,394
Fringe benefits	102,204	7,812	2,992	10,804	113,008
Training and development	10,981	2,629	1,082	3,711	14,692
Consultants and professional fees	18,285	23,400	69,810	93,210	111,495
Computer and IT expenses	14,703	-	4,652	4,652	19,355
Facilities and equipment	42,189	-	12,390	12,390	54,579
Depreciation and amortization	42,838	3,292	10,657	13,949	56,787
Rent, including in-kind rent	67,813	-	-	-	67,813
Operating expenses	31,098	1,306	5,474	6,780	37,878
Classroom meals	121,521	-	-	-	121,521
Insurance	23,333	1,783	683	2,466	25,799
Taxes and licenses	2,036	-	2,243	2,243	4,279
Bank fees and charges	1,739	55	6,621	6,676	8,415
Travel	1,796	-	118	118	1,914
Interest	32,778	10,841	18,772	29,613	62,391
Fundraising expenses	21,614	20,294	5,946	26,240	47,854
Licenses and fees	979	-	-	-	979
Moving expenses	669	-	-	-	669
Gifts	289	-	-	-	289
In-kind supplies and assistance	42,643	-	-	-	42,643
Total expenses	<u>\$ 1,595,501</u>	<u>\$ 149,067</u>	<u>\$ 171,186</u>	<u>\$ 320,253</u>	<u>\$ 1,915,754</u>

See accompanying notes to the financial statements

6.



**The Child and Family Network Centers**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2018**

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

See accompanying notes to the financial statements

7.

**The Child and Family Network Centers**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ <u>378,079</u>	\$ <u>139,048</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	56,787	58,658
Donated equipment	(1,911)	-
Unrealized (gain) loss on investments	(250)	13
Decrease (increase) in assets:		
Accounts receivable	(2,500)	58,932
Capital Campaign contributions receivable	(24,234)	31,044
Prepaid expenses	19,081	1,419
Other assets	(2,000)	-
Increase (decrease) in liabilities:		
Accounts payable	(2,670)	19,575
Accrued payroll and related compensation	(32,056)	7,851
Deferred revenue	7,222	(5,482)
Total adjustments	<u>17,469</u>	<u>172,010</u>
Net cash provided by operating activities	<u>395,548</u>	<u>311,058</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,867)	(1,387)
Purchases of investments	(27,079)	(200,000)
Proceeds from sales of investments	<u>23,416</u>	<u>-</u>
Net cash used in investing activities	<u>(8,530)</u>	<u>(201,387)</u>
Cash flows from financing activities:		
Principal payments on note payable	(31,143)	(29,728)
Principal payments on line of credit	<u>(156,021)</u>	<u>(43,363)</u>
Net cash used in financing activities	<u>(187,164)</u>	<u>(73,091)</u>
Net increase in cash	199,854	36,580
Cash, beginning of year	<u>416,922</u>	<u>380,342</u>
Cash, end of year	<u>\$ 616,776</u>	<u>\$ 416,922</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ 61,715</u>	<u>\$ 64,928</u>

See accompanying notes to the financial statements.

8.

**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

**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. For the years ended June 30, 2019 and 2018, 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 two classes of net assets:

- *Net Assets Without Donor Restrictions* represent resources that are not subject to donor imposed restrictions and are available for operations at management's discretion.

**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

- *Net Assets With Donor Restrictions* represent resources restricted by donors. Some donor restrictions are temporary in nature and those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, donor restricted net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the accompanying statements of activities.

**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:

**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

- 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, 2019 and 2018.

**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, 2019 and 2018, 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, 2019 and 2018, the Organization had no uncertain tax positions which should be recognized as a liability.

**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

**f.** Contributions receivable

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 and 2019, there was no allowance for doubtful accounts.

**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 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.

**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

**i.** Construction in process

Construction in process consists of equipment purchased and donated for the construction of a playground. The playground will begin to be depreciated on a straight line basis over the estimated useful life of 10 years, once the playground is put into service.

**j.** Measure of operations

The accompanying statements of activities reports all changes in net assets as operating activities, including those items attributable to the Organization's ongoing programmatic services and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments.

**k.** 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 donor 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, net assets are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as net assets without donor restrictions if the restriction expires in the same reporting period in which the contribution is recognized.

*ii. Grants*

Grant 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.

**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

*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.

*iv. Program fees*

Program fees are recognized as revenue in the period in which services are provided or when an event takes place.

**I. Functional allocation of expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs, such as payroll expenses, fringe benefits, depreciation and amortization and insurance, have been allocated among programs and supporting services based on level of effort.

**m. Reclassification**

For comparative purposes, certain 2018 amounts have been reclassified to conform to the 2019 presentation. However, none of these reclassifications affected the 2018 change in net assets.

**n. Adoption of new accounting standard**

The Organization has adopted the financial statement presentation and disclosure standards contained in the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, modifying ASC 958. The change has been applied as of these financial statements with no effect on beginning net assets.



**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

**3. Liquidity and Availability**

The following represents the Organization's financial assets at June 30:

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash	\$ 616,766	\$ 416,922
Contributions receivable	2,500	-
Capital Campaign contributions receivable, net	38,197	13,963
Investments	<u>203,900</u>	<u>199,987</u>
Total financial assets	<u>861,363</u>	<u>630,872</u>
Less amounts not available within one year:		
Net assets with donor restrictions	28,030	44,880
Less net assets with purpose restrictions to be met in less than a year	<u>(28,030)</u>	<u>(44,880)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 861,363</u>	<u>\$ 630,872</u>

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$479,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

**4. Concentrations of Credit Risk**

The Organization maintains bank deposits that, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2019 and 2018, the Organization had bank deposits in excess of FDIC limits of \$152,656 and \$73,520, respectively.

**5. Investments and Fair Value Measurements**

Investments are comprised of the following at June 30:

	<u>2019</u> Cost	<u>2019</u> Fair Value	<u>2018</u> Cost	<u>2018</u> Fair Value
Money market	\$ 52,673	\$ 52,673	\$ 50,000	\$ 50,000
Certificates of deposits	<u>150,000</u>	<u>151,227</u>	<u>150,000</u>	<u>149,987</u>
Total investments	<u>\$ 202,673</u>	<u>\$ 203,900</u>	<u>\$ 200,000</u>	<u>\$ 199,987</u>

**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

The table below presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market	\$ 52,673	\$ -	\$ 52,673
Certificates of deposits	<u>-</u>	<u>151,227</u>	<u>151,227</u>
Total investments	<u>\$ 52,673</u>	<u>\$ 151,227</u>	<u>\$ 203,900</u>

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market	\$ 50,000	\$ -	\$ 50,000
Certificates of deposits	<u>-</u>	<u>149,987</u>	<u>149,987</u>
Total investments	<u>\$ 50,000</u>	<u>\$ 149,987</u>	<u>\$ 199,987</u>

**6. Property and Equipment, Net**

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

	<u>2019</u>	<u>2018</u>
Building	\$ 998,243	\$ 998,243
Computer equipment and software	17,449	17,449
Furniture and fixtures	14,049	14,049
Building improvements	1,090,102	1,090,102
Playground	25,163	25,163
Land	<u>240,000</u>	<u>240,000</u>
Property and equipment	2,385,006	2,385,006
Accumulated depreciation and amortization	<u>(334,659)</u>	<u>(277,872)</u>
Total property and equipment, net	<u>\$ 2,050,347</u>	<u>\$ 2,107,134</u>

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$56,787 and \$58,658, respectively.

**The Child and Family Network Centers**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

**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 Organization renewed the lease for a term of three years. The lease calls for monthly rental payments 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 were extended, for two classrooms, until June 30, 2019. Lease terms for one of the classrooms was extended until June 30, 2020. For the years ended June 30, 2019 and 2018, the annual rent payments were \$20,000 for each year.

During the year ended June 30, 2019, the Organization entered into a three-year lease agreement for preschool/daycare space in Alexandria, Virginia commencing on September 1, 2019. The base rent is \$33,800 with an annual escalation rate of 5%.

Rent expense for the years ended June 30, 2019 and 2018 was \$67,813 and \$67,610, respectively.

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

2020	\$ 62,712
2021	39,157
2022	<u>6,211</u>
Total	<u>\$ 108,080</u>

**8. 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 is secured by the facility and matures on September 30, 2038. The note has a call option, whereby the lender has the right to accelerate the maturity date of the note and all outstanding and unpaid principal, together with all accrued and unpaid interest, fees and expenses, shall be due and payable 120 months from the commencement date, or, if not exercised, again at 240 months from the commencement date, provided the lender give 60 days notice.

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The note carries an interest rate of 5.05%, which has been determined by the Bank. The note allows for adjustments to the interest rate at various times within the note term, with the rate to be determined and agreed upon by the Bank and the Organization. Absent such a written agreement, the interest rate shall be the greater of 7% or 3 percentage points above the Prime Rate.

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. Periodic installments of principal shall be at least \$25,000 in each calendar year and the aggregate amount of all such periodic installments of principal shall equal \$300,000 at December 31, 2018. On December 7, 2018, the Organization received permission from the bank to pay off their line of credit in full in lieu of the additional payment to bring the total principal paid to \$300,000. At June 30, 2019 and 2018, the note payable had a balance due of \$1,042,201 and \$1,073,344, respectively.

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

2020	\$ 32,499
2021	34,348
2022	36,148
2023	38,044
2024	39,913
2025 and thereafter	<u>861,249</u>
Total	<u>\$ 1,042,201</u>

Bank term note

In August 2017, the Organization entered into a term note with a financial institution. The term note was payable in equal monthly installments of \$2,194 over ten years. The interest rate was fixed at 5.65% and the loan was secured by all deposits held in the same institution. At June 30, 2018, the Organization had a balance due in the amount of \$156,021. The Organization paid off the term loan during the year ended June 30, 2019.

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**9. Net Assets With Donor Restrictions**

For the years ended June 30, 2019 and 2018, net assets were released from donor restrictions in the amount of \$44,682 and \$24,371, respectively.

At June 30, 2019 and 2018, net assets with donor restrictions were available for the following purposes:

	<u>2019</u>	<u>2018</u>
New Playground	\$ 11,100	\$ -
Creative curriculum	15,128	14,859
Classroom supplies	-	21
Time restriction	<u>2,000</u>	<u>30,000</u>
Total net assets with donor restrictions	<u>\$ 28,228</u>	<u>\$ 44,880</u>

**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 Elementary School and the Arlandria - Chirilagua Housing Cooperative are provided to the Organization at no cost. The fair value of the donated spaces is estimated at \$11,000 for each location for each of the years ended June 30, 2019 and 2018.

Total fair value of donated space, which is recognized as in-kind contributions in the accompanying statements of activities, was \$22,000 and \$21,996 for the years ended June 30, 2019 and 2018, respectively. Also included as in-kind contributions are school supplies and student assistance totaling \$44,480 and \$35,947, for the years ended June 30, 2019 and 2018, respectively.

**11. Subsequent Events**

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 4, 2019, 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.