

THE CAMPAGNA CENTER, INC.
(a nonprofit organization)

**FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION**

Year Ended August 31, 2017

(with summarized comparative information for August 31, 2016)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Campagna Center, Inc.
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of The Campagna Center, Inc. (the Center) which comprise the statement of financial position as of August 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Center as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Center's 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses by Program on page 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2017, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Reimer and Company, CPA, P.C.

Alexandria, Virginia
December 31, 2017

THE CAMPAGNA CENTER, INC.**STATEMENT OF FINANCIAL POSITION**August 31, 2017 *(with comparative information as of August 31, 2016)***ASSETS**

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 1,164,635	\$ 248,235
Receivables, net of allowance	523,836	825,118
Prepaid expense	<u>76,449</u>	<u>79,103</u>
TOTAL CURRENT ASSETS	<u>1,764,920</u>	<u>1,152,456</u>
PROPERTY AND EQUIPMENT , at cost, net of accumulated depreciation	<u>801,270</u>	<u>770,619</u>
OTHER ASSETS		
Investments	1,512,661	1,372,283
Security deposits	<u>1,000</u>	<u>1,000</u>
TOTAL OTHER ASSETS	<u>1,513,661</u>	<u>1,373,283</u>
TOTAL ASSETS	<u><u>\$ 4,079,851</u></u>	<u><u>\$ 3,296,358</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 493,221	\$ 450,986
Refundable advances	527,613	241,536
Capital lease obligation	<u>18,300</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>1,039,134</u>	<u>692,522</u>
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	<u>62,030</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,101,164</u>	<u>692,522</u>
NET ASSETS		
Unrestricted	2,819,638	2,531,595
Temporarily restricted	109,049	22,241
Permanently restricted	<u>50,000</u>	<u>50,000</u>
TOTAL NET ASSETS	<u>2,978,687</u>	<u>2,603,836</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,079,851</u></u>	<u><u>\$ 3,296,358</u></u>

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.

STATEMENT OF ACTIVITIES

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE AND SUPPORT					
Program funds from					
government grants	\$ 7,737,557	\$ -	\$ -	\$ 7,737,557	\$ 8,090,923
Supplemental education fees	2,407,281	-	-	2,407,281	2,444,433
Contributions and grants	648,051	92,127	-	740,178	575,487
In-kind contributions	2,036,472	-	-	2,036,472	1,765,064
Special events and projects	410,884	-	-	410,884	289,746
Membership activities	19,500	-	-	19,500	19,275
Investment income	139,772	8,056	-	147,828	35,844
Other	48,693	-	-	48,693	37,201
Net assets released from restrictions	13,375	(13,375)	-	-	-
TOTAL REVENUE AND SUPPORT	13,461,585	86,808	-	13,548,393	13,257,973
EXPENSES					
Program	12,279,546	-	-	12,279,546	12,130,489
Management and general	468,008	-	-	468,008	462,328
Fundraising	425,988	-	-	425,988	420,817
TOTAL EXPENSES	13,173,542	-	-	13,173,542	13,013,634
CHANGE IN NET ASSETS	288,043	86,808	-	374,851	244,339
NET ASSETS, beginning of year	2,531,595	22,241	50,000	2,603,836	2,359,497
NET ASSETS, end of year	\$ 2,819,638	\$ 109,049	\$ 50,000	\$ 2,978,687	\$ 2,603,836

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

	2017			2016	
	Program	Management and General	Fund- Raising	Total	Total
Salaries, taxes, and benefits	\$ 6,935,279	\$ 1,013,501	\$ 165,195	\$ 8,113,975	\$ 7,837,273
Professional services	1,214,194	57,914	21,250	1,293,358	1,418,826
In-kind	1,997,922	-	38,550	2,036,472	1,765,064
Food expense	493,441	3,206	89	496,736	486,557
Supplies	262,716	7,501	22,419	292,636	604,617
Special activities and events	1,963	-	107,729	109,692	91,516
Telephone and technology	160,515	33,857	15,006	209,378	208,339
Training and development	9,140	250	345	9,735	12,045
Insurance	11,079	61,862	-	72,941	75,084
Depreciation	-	64,482	-	64,482	51,112
Program activities	122,504	148	33	122,685	162,736
Travel	14,847	9,199	190	24,236	11,045
Equipment, repairs and maintenance	22,731	13,813	-	36,544	99,280
Advertising and publications	480	-	6,128	6,608	4,408
Postage	7,013	530	3,589	11,132	11,229
Printing	8,508	919	18,253	27,680	29,478
Licensing and permits	20,673	2,462	656	23,791	15,262
Interest	-	3,001	-	3,001	-
Contributions	-	1,274	525	1,799	1,913
Occupancy	21,991	34,872	6,349	63,212	56,725
Recognition	2,302	1,378	-	3,680	4,265
Other	124,957	13,100	11,712	149,769	66,860
	<u>11,432,255</u>	<u>1,323,269</u>	<u>418,018</u>	<u>13,173,542</u>	<u>13,013,634</u>
Allocated overhead costs	<u>847,291</u>	<u>(855,261)</u>	<u>7,970</u>	<u>-</u>	<u>-</u>
TOTAL EXPENSES	<u><u>\$ 12,279,546</u></u>	<u><u>\$ 468,008</u></u>	<u><u>\$ 425,988</u></u>	<u><u>\$ 13,173,542</u></u>	<u><u>\$ 13,013,634</u></u>

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.**STATEMENT OF CASH FLOWS****Year Ended August 31, 2017***(with comparative information for the year ended August 31, 2016)*

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations		
Government grants, fees, contributions received	\$ 13,987,925	\$ 13,243,827
Investment income	47,987	43,317
	<u>14,035,912</u>	<u>13,287,144</u>
Cash disbursed by operations		
Payments to employees and suppliers	13,061,170	12,996,791
Interest paid	3,001	-
	<u>13,064,171</u>	<u>12,996,791</u>
	<u>971,741</u>	<u>290,353</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(118,006)	(108,052)
Proceeds from sale of investments	77,468	64,734
	<u>(40,538)</u>	<u>(43,318)</u>
NET CASH USED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(14,803)	-
	<u>916,400</u>	<u>247,035</u>
NET INCREASE IN CASH		
CASH, beginning of year	<u>248,235</u>	<u>1,200</u>
CASH, end of year	<u>\$ 1,164,635</u>	<u>\$ 248,235</u>
NON-CASH INVESTING ACTIVITIES		
Unrealized (gain) loss in fair value of investments	\$ (94,422)	\$ 3,528
Increase (decrease) in investment value	94,422	(3,528)
	<u>\$ -</u>	<u>\$ -</u>
NON-CASH FINANCING ACTIVITIES		
Acquisition of equipment under capital lease	\$ 95,133	\$ -
Capital lease obligation	(95,133)	-
	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.

STATEMENT OF CASH FLOWS

Year Ended August 31, 2017

(with comparative information for the year ended August 31, 2016)

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	<u>\$ 374,851</u>	<u>\$ 244,339</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	64,482	51,112
Realized and unrealized (gains) losses on investments	<u>(99,840)</u>	<u>7,473</u>
	<u>(35,358)</u>	<u>58,585</u>
CHANGES IN ASSETS AND LIABILITIES AFFECTING OPERATIONS PROVIDING (USING) CASH		
ASSETS		
Receivables, net of allowance	301,282	47,468
Prepaid expense	<u>2,654</u>	<u>(12,791)</u>
	<u>303,936</u>	<u>34,677</u>
LIABILITIES		
Overdraft of cash	-	(54,343)
Accounts payable and accrued expenses	42,235	5,889
Refundable advances	286,077	26,976
Deferred revenue	<u>-</u>	<u>(25,770)</u>
	<u>328,312</u>	<u>(47,248)</u>
NET CHANGES IN ASSETS AND LIABILITIES	<u>632,248</u>	<u>(12,571)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 971,741</u></u>	<u><u>\$ 290,353</u></u>

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE

Nature of Activities

The Campagna Center, Inc. (the Center), is a community-based not-for-profit organization in Alexandria, VA. The Center operates a variety of programs to address the needs of children, youth and families. The Center provides early childhood education programs to children under five years-of-age, after school programs to children attending local elementary schools, youth development programs for high school students, and a family literacy program designed for adults that includes a child development component for infants, toddlers and preschoolers.

A brief description of major programs includes:

Early Childhood Programs

Early Head Start provides care for low-income infants and toddlers (birth - three years old) and expectant families. Early Head Start offers comprehensive services—educational, social, physical health, mental health, and nutrition—to ensure that children are getting off to the very best possible start in life. The Center's Early Head Start program delivers services through various settings including center-based, home visiting, and family child care. The Center has earned accreditation through the National Association for the Education of Young Children (NAEYC).

Alexandria Head Start promotes school readiness for preschool children (ages 3 to 5) from low-income families living in the city of Alexandria. The program intentionally focuses on helping children develop skills in the areas of cognitive and language development, early reading, and mathematics, social emotional and physical development necessary for school readiness. Families collaborate with staff to foster these outcomes and work toward their own self-sufficiency goals. All sites are accredited through the National Association for the Education of Young Children.

Campagna Early Learning Center is a full day pre-school program created to provide more families with access to quality preschool programs, especially those “aging out” of the Early Head Start programs or those who no longer qualify for Head Start Services. Like the Early Head Start and Head Start classrooms, this center is NAEYC accredited.

Early Head Start Child Care Partnership Project works with a network of independent family child care providers regulated by the City of Alexandria to serve children who qualify for Early Head Start services. These providers participate in training and professional development experiences that enhance the quality of care provided to children enrolled in their programs. Providers also gain access to resources that strengthen their knowledge of child development and the many ways to integrate the use of curriculum resources into their program.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (Continued)

School-Age Programs

Campagna Kids provides recreational, social, and academic enrichment to nearly 1,000 children through its after school and summer camp program. Operated in partnership with the City of Alexandria and the Alexandria City Public Schools, it offers parents access to high quality enrichment programs for their children.

Building Better Futures provides tutoring, mentoring, leadership and life skills development to middle and high school students in Alexandria. Services are offered at three Alexandria City Public School locations (Jefferson Houston, Minnie Howard, and TC Williams). Many of the youth enrolled in the program may be the first in their family to pursue college, post high school graduation and/or have immigrated to the United States. The program has received several awards for its exemplary results.

Adult/Family Development Programs

The New Neighbors English Language Learners and Family Literacy Programs provides nine levels of English instruction across 13 weeks, 3 days per week, 3 hours per day program model. Two semesters are offered each year, one 13-week session in the fall, and the other during the spring. Students are immigrants and refugees new to our community and one third require child care assistance to enroll and attend classes. The program is designed to increase self-sufficiency and support community integration.

Basis of Presentation

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets represent resources that are available to support the Center's operations. Temporarily restricted net assets represent resources that are restricted by donors for a particular purpose or for use in a particular future period. Investment income and the unspent appreciation of the Center's donor restricted endowment funds is also reported as temporarily restricted net assets. Permanently restricted net assets represent resources in which use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. As described in Note 10, the Center's permanently restricted net assets constitute the original gift for the Sonosky Fund totaling \$50,000.

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (Continued)

Summarized Information

The financial statements include certain summarized comparative information in total but not by each class of net assets. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (US GAAP). Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended August 31, 2016, from which the summarized information was derived.

Cash and Cash Equivalents

As of August 31, 2017 and 2016, cash consisted of checking accounts and petty cash. Cash equivalents are considered to be highly liquid debt instruments with an initial maturity of 90 days or less. There were no cash equivalents as of August 31, 2017 and 2016. Cash and money market funds held by investment custodians are considered investments.

Accounts Receivable

Supplemental education fees receivable from parents are billed two weeks prior to the month of service and are due by the first of each month. If the payments are not made by the seventh of the month of service, the Center shall have the right to notify parents and guardians that services will be terminated by the fifteenth of the month and a late charge will be incurred after the fifteenth of the month.

The Center currently charges a flat fee of \$10 on the past due invoices. The provision for doubtful accounts is based on management's evaluation of the collectability of existing receivables.

Property and Equipment

The Center capitalizes all property and equipment with a cost of \$5,000 or more. Property and equipment are stated at cost, and are depreciated on the straight line basis over the estimated useful lives of 3 to 30 years. Betterments and improvements that extend the life of the asset are capitalized.

Fair Value Measurements

The Center applies US GAAP for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (Continued)

Investments

Investments are stated at fair value based on quoted market prices. Unrealized gains and losses are included in investment income in the statement of activities.

The Center invests in a professionally managed portfolio that contains stocks, bonds, and mutual funds. Such investments are exposed to various risks such as market and credit risk. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Revenue related to third-party reimbursement arrangements is recognized in the period in which the reimbursable costs are incurred.

Deferred revenue represents fees collected in advance for future services.

In-kind Contributions

In-kind contributions of rent and professional volunteer services have been recorded for the Campagna Kids and Head Start programs based on estimated fair value. In-kind items donated for various special events are recorded based on estimated fair value.

Advertising

Advertising costs are expensed as incurred. Total advertising expenses for the years ended August 31, 2017 and 2016 are \$6,608 and \$4,408.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

1. SIGNIFICANT ACCOUNTING POLICIES, ORGANIZATION, AND PURPOSE (Continued)

Income Taxes

The Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. In addition, the Center qualifies for the charitable contributions deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The Center had no taxable unrelated business income for the years ended August 31, 2017 and 2016.

In accounting for uncertainty in income taxes, accounting standards require an entity to recognize the financial statement impact of a tax position when it is more-likely-than-not that the position will not be sustained upon examination. Management evaluated the Center's tax positions and concluded there are no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

Allocated Expenses

Direct costs associated with specific programs are recorded as program expenses. Administrative staff and staff working on multiple programs use time sheets to capture actual hours devoted to project areas.

The Center's policy is to allocate allocable general operating expenses and management expenses to certain programs based on the average number of personnel employed by the Center's functions. Allocated management and general expenses not reimbursed by grant programs are borne by the Center.

Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with US GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

The significant estimates affecting the financial statements include the estimated fair value of the in-kind support of donated facilities, goods, and services and the estimate that there are no significant unallowable costs as discussed in Notes 12 and 16, respectively.

Reclassifications

Certain reclassifications have been made within the 2016 financial statement presentation to conform to the classifications used in the 2017 financial statements.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

2. CASH

Cash at August 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Checking	\$ 1,163,435	\$ 247,035
Petty cash	1,200	1,200
	<u>\$ 1,164,635</u>	<u>\$ 248,235</u>

As of August 31, 2017 and 2016, bank balances not insured by the Federal Deposit Insurance Corporation were \$1,163,377 and \$311,395, respectively.

3. RECEIVABLES

Receivables at August 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Program funds from governments		
Campagna Kids	\$ 28,873	\$ 174,764
Head Start	277,761	332,605
Early Head Start	131,510	201,007
Family Child Care Partnership Project	68,455	78,555
21st Century	-	12,693
	<u>506,599</u>	<u>799,624</u>
Supplemental education fees	25,629	60,988
	<u>532,228</u>	<u>860,612</u>
Less: Provision for doubtful accounts	<u>(8,392)</u>	<u>(35,494)</u>
	<u>\$ 523,836</u>	<u>\$ 825,118</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

4. PROPERTY AND EQUIPMENT

Property, equipment, and accumulated depreciation at August 31, 2017 and 2016, and depreciation expense for the years then ended is as follows:

	August 31, 2017			
	Estimated Lives	Cost	Accumulated Depreciation	Depreciation Expense
Land	-	\$ 364,217	\$ -	\$ -
Building	25 to 30 years	149,923	149,923	-
Building improvements	5 to 25 years	1,244,288	886,513	48,626
Furniture and equipment	3 to 10 years	219,921	140,643	15,856
Automobiles	5 years	73,794	73,794	-
		<u>\$ 2,052,143</u>	<u>\$ 1,250,873</u>	<u>\$ 64,482</u>
	August 31, 2016			
	Estimated Lives	Cost	Accumulated Depreciation	Depreciation Expense
Land	-	\$ 364,217	\$ -	\$ -
Building	25 to 30 years	149,923	149,923	-
Building improvements	5 to 25 years	1,244,288	837,887	48,626
Furniture and equipment	3 to 10 years	124,788	124,787	2,486
Automobiles	5 years	73,794	73,794	-
		<u>\$ 1,957,010</u>	<u>\$ 1,186,391</u>	<u>\$ 51,112</u>

The Center's property is recorded at historical cost in accordance with US GAAP. The assessed market value of the Center's land and building based on the City of Alexandria's Department of Real Estate Assessments at August 31 is as follows:

	2017	2016
Land	\$ 2,979,500	\$ 3,129,571
Building	850,000	1,454,440
	<u>\$ 3,829,500</u>	<u>\$ 4,584,011</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

5. INVESTMENTS

The Center had the following investments as of August 31:

	<u>2017</u>	<u>2016</u>
Mutual funds		
Foreign Large Value	\$ 115,036	\$ 143,602
Intermediate-Term Bond	57,739	57,360
Large Blend	116,623	108,525
Large Growth	357,247	337,397
Large Value/World Allocation	346,649	274,723
Short-Term Bond	66,208	66,578
Mid-Cap Growth	138,850	60,962
Income Fund	189,813	182,995
Small Growth	88,209	81,678
Money market funds	33,445	58,463
Common stock	2,842	-
	<u>\$ 1,512,661</u>	<u>\$ 1,372,283</u>

Investments are allocated to the following classes of net assets:

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 1,432,364	\$ 1,300,042
Temporarily restricted	30,297	22,241
Permanently restricted	50,000	50,000
	<u>\$ 1,512,661</u>	<u>\$ 1,372,283</u>

Investment income for the years ended August 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Dividend and interest income	\$ 63,518	\$ 78,611
Capital gain (loss), realized	5,418	(3,945)
Unrealized gain (loss) in market value	94,422	(3,528)
Investment management fees	(15,530)	(35,294)
	<u>\$ 147,828</u>	<u>\$ 35,844</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

6. FAIR VALUE MEASUREMENTS

The Center records investments based on fair value on a recurring basis. Financial accounting and reporting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The standard emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the standards established a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent from the reporting entity (observable inputs that are classified within level 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level 3 of the hierarchy).

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the assets or liabilities (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the assets or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The determination of the fair value level within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Center's assessment of the significance of the particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the assets and liabilities.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

6. FAIR VALUE MEASUREMENTS (Continued)

The following summarizes investments, measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fall, as of August 31:

	August 31, 2017			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Foreign Large Value	\$ 115,036	\$ 115,036	\$ -	\$ -
Intermediate-Term Bond	57,739	57,739	-	-
Large Blend	116,623	116,623	-	-
Large Growth	357,247	357,247	-	-
Large Value/World Allocation	346,649	346,649	-	-
Short-Term Bond	66,208	66,208	-	-
Mid-Cap Growth	138,850	138,850	-	-
Income Fund	189,813	189,813	-	-
Small Growth	88,209	88,209	-	-
Money market funds	33,445	33,445	-	-
Common stock	2,842	2,842	-	-
	<u>\$ 1,512,661</u>	<u>\$ 1,512,661</u>	<u>\$ -</u>	<u>\$ -</u>
	August 31, 2016			
	Total	Level 1	Level 2	Level 3
Mutual funds				
Foreign Large Value	\$ 143,602	\$ 143,602	\$ -	\$ -
Intermediate-Term Bond	57,360	57,360	-	-
Large Blend	108,525	108,525	-	-
Large Growth	337,397	337,397	-	-
Large Value/World Allocation	274,723	274,723	-	-
Short-Term Bond	66,578	66,578	-	-
Mid-Cap Growth	60,962	60,962	-	-
Income Fund	182,995	182,995	-	-
Small Growth	81,678	81,678	-	-
Money market funds	58,463	58,463	-	-
	<u>\$ 1,372,283</u>	<u>\$ 1,372,283</u>	<u>\$ -</u>	<u>\$ -</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

7. REFUNDABLE ADVANCES

The Center has an operating advance from the City of Alexandria to facilitate the Center's ongoing performance of reimbursable contract work for the Campagna Kids program. Refundable advances as of August 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Campagna Kids program	\$ 55,762	\$ 65,636
W.K. Kellogg Foundation DOE Fellowship	468,427	175,900
Other	<u>3,424</u>	<u>-</u>
	<u>\$ 527,613</u>	<u>\$ 241,536</u>

8. OBLIGATIONS UNDER CAPITAL LEASE

The Center leases a copier machine under a capital lease that expires October 2021. The assets and liabilities under capital lease are recorded at the lower of the present value of the minimum lease payments or the market value of the asset. The asset is amortized over its estimated useful life. The capital lease is secured by the leased asset.

Future minimum lease payments for the remainder of this lease are as follows:

For the fiscal year ended:	<u>Total Payments</u>	<u>Interest Portion</u>	<u>Net</u>
2018	\$ 20,640	\$ 2,340	\$ 18,300
2019	20,640	1,736	18,904
2020	20,640	1,112	19,528
2021	20,640	468	20,172
2022	<u>3,440</u>	<u>14</u>	<u>3,426</u>
	<u>\$ 86,000</u>	<u>\$ 5,670</u>	<u>\$ 80,330</u>

Total payments relating to this lease during the year ended August 31, 2017 were \$17,200, including \$2,397 in interest payments.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

9. LINE OF CREDIT

The Center has a \$1,200,000 line of credit secured by the property located at 418 and 418A South Washington Street. Bank advances on the credit line are payable on demand. The interest rate is Prime plus 1% based on the Wall Street Journal Prime Rate. For the years ended August 31, 2017 and 2016, the interest rate was 4.75% and 4.5%, respectively. The maturity date is March 28, 2019. The unused line of credit at August 31, 2017 and 2016 was \$1,200,000. The outstanding balance on this line of credit was \$0 at August 31, 2017 and 2016, respectively.

The interest expense related to this line of credit was \$0 for the years ended August 31, 2017 and 2016.

10. ENDOWMENTS

The Center's endowments represent funds received for the Sonosky Fund that were established for scholarships via donor restriction. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, the Center has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Center, and (7) the Center's investment policies.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

10. ENDOWMENTS (Continued)

The Center has adopted investment and spending policies, approved by the Center's board, for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes mutual funds. The Center expects its endowment assets, over time, to produce an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.

The Center has a policy of appropriating for distribution each year amounts as approved by the Center's board. In establishing this policy, the Center considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Center expects the current spending policy to allow its endowment funds to grow at an average rate of 7.6% annually. This is consistent with the Center's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment funds as of August 31, 2017 and 2016 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Balance as of September 1, 2016	\$ 22,241	\$ 50,000	\$ 72,241
Investment income	3,006	-	3,006
Change in fair value of investments	5,050	-	5,050
Balance as of August 31, 2017	<u>\$ 30,297</u>	<u>\$ 50,000</u>	<u>\$ 80,297</u>
Balance as of September 1, 2015	\$ 20,218	\$ 50,000	\$ 70,218
Investment income	8,052	-	8,052
Change in fair value of investments	(6,029)	-	(6,029)
Balance as of August 31, 2016	<u>\$ 22,241</u>	<u>\$ 50,000</u>	<u>\$ 72,241</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

11. TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2017 and 2016, temporarily restricted net asset balances consisted of the following:

	2017			Balance August 31, 2017
	Balance September 1, 2016	Additions	Releases	
Sonosky Fund (Endowment)	\$ 22,241	\$ 8,056	\$ -	\$ 30,297
Head Start related costs	-	92,127	(13,375)	78,752
	<u>\$ 22,241</u>	<u>\$ 100,183</u>	<u>\$ (13,375)</u>	<u>\$ 109,049</u>

	2016			Balance August 31, 2016
	Balance September 1, 2015	Additions	Releases	
Sonosky Fund (Endowment)	\$ 20,218	\$ 2,023	\$ -	\$ 22,241

12. DONATED GOODS AND SERVICES

The Center occupies designated space for its Head Start and Campagna Kids programs that is provided without charge by the City of Alexandria and the Alexandria City Public School System. The Center estimates the value of this rent-free space based on prevailing market conditions in the area of its operations and has recognized this as support and occupancy expense in the statement of activities. The Center also receives various donated goods for its Early Head Start and Head Start programs as well as its various events. Donated professional services are also received throughout the fiscal year.

Donated goods and services recorded as revenue and expenses as of August 31, 2017 and 2016 are as follows:

	2017	2016
Donated rent and facilities	\$ 1,817,900	\$ 1,737,434
Donated goods - events	34,173	16,772
Donated goods - programs	29,050	10,858
Donated professional services	155,349	-
	<u>\$ 2,036,472</u>	<u>\$ 1,765,064</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

13. RETIREMENT PLAN

The Center has a 403(b) defined contribution plan. With respect to elective deferrals, the Plan covers all employees working at least 20 hours per week. With respect to employer contributions, the employee must work at least 1,000 hours during the year. Both the employer and employee deferral contributions are limited by the tax laws. The Center can make annual discretionary contributions to the Plan. There were no employer contributions to the Plan for the years ended August 31, 2017 and 2016.

14. MAJOR GRANTORS

Program funds from government grants totaled \$7,737,557 for the year ended August 31, 2017 and \$8,090,923 for the year ended August 31, 2016, which is approximately 57% and 61% of total revenue and support of the Center, respectively. These grants consist of funds from the federal government, the Commonwealth of Virginia, the City of Alexandria, Virginia, and the Alexandria City Public Schools. A significant reduction in the level of this revenue and support, if this were to occur, might have a significant effect on the Center's programs and activities.

As of August 31, 2017 and 2016 the amount outstanding from the above government grants was \$506,599 and \$799,624, respectively, which approximates 95% and 93% of total receivables, respectively.

15. CONDITIONAL GRANTS

The Center has been conditionally awarded the following grants for the year ending August 31, 2018:

Head Start	\$ 2,264,730
Early Head Start	1,404,405
Family and Childcare Partnership	<u>940,762</u>
	<u>\$ 4,609,897</u>

16. COMMITMENTS AND CONTINGENCIES - GOVERNMENT CONTRACTS AND GRANTS

The Center participates in a number of federally assisted programs which are subject to financial and compliance audits by the federal agencies or their representatives. As such, there is a possibility that questioned costs might result from such an audit. Management does not anticipate any significant adjustments as a result of such an audit for the current year costs.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2017

(with summarized comparative information for the year ended August 31, 2016)

17. SUBSEQUENT EVENTS

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through December 31, 2017, the date the financial statements were available to be issued.

Contingencies

Subsequent to the fiscal year end, the Center accepted a letter of intent presented by a buyer with interest in purchasing its building. The Center also presented a letter of interest to the owner of a property to support a potential relocation. No firm offers to sell or buy have been ratified as of December 31, 2017.

Classroom Lease

Subsequent to the fiscal year end, the Center has entered into an operating lease for classroom space at St. James Plaza in Alexandria. The lease will commence no later than July 1, 2018 and continue through June 30, 2028. The lease includes options for renewing and terminating that agreement during this time period.

Future minimum lease payments related to this lease are as follows:

For the fiscal year ended:	
2018	\$ 3,930
2019	23,698
2020	24,409
2021	25,141
2022	25,895
2023 - 2028	<u>167,245</u>
	<u>\$ 270,318</u>

The Center has also entered into an agreement with a contractor to buildout classroom space in order to operate an Early Childhood Education Center as part of its lease of space at St. James Plaza in Alexandria. The total contract sum related to this buildout amounts to \$223,165.

SUPPLEMENTARY INFORMATION

THE CAMPAGNA CENTER, INC.

**SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM
Year Ended August 31, 2017**

(with summarized comparative information for the year ended August 31, 2016)

	2017							2016		
	Program Services					Support Services		Total	Total	
	Campagna Kids	Early Childhood Education	Building Better Futures	New Neighbors	Kellogg DOE Fellowship	Total Program	Management and General			Fund-Raising
Salaries, taxes, and benefits	\$ 3,012,687	\$ 3,602,151	\$ 117,435	\$ 100,472	\$ 102,534	\$ 6,935,279	\$ 1,013,501	\$ 165,195	\$ 8,113,975	\$ 7,837,273
Professional services	258,282	917,792	20,096	1,530	16,494	1,214,194	57,914	21,250	1,293,358	1,418,826
In-kind	919,074	1,001,377	97	997	76,377	1,997,922	-	38,550	2,036,472	1,765,064
Food expense	122,949	367,612	2,880	-	-	493,441	3,206	89	496,736	486,557
Supplies	146,884	102,021	1,206	12,447	158	262,716	7,501	22,419	292,636	604,617
Special activities and events	1,963	-	-	-	-	1,963	-	107,729	109,692	91,516
Telephone and technology	78,908	76,667	3,388	867	685	160,515	33,857	15,006	209,378	208,339
Training and development	445	8,605	90	-	-	9,140	250	345	9,735	12,045
Insurance	3,596	6,359	360	764	-	11,079	61,862	-	72,941	75,084
Depreciation	-	-	-	-	-	-	64,482	-	64,482	51,112
Program activities	102,738	9,702	9,499	458	107	122,504	148	33	122,685	162,736
Travel	248	11,906	519	44	2,130	14,847	9,199	190	24,236	11,045
Equipment, repairs and maintenance	5,902	16,829	-	-	-	22,731	13,813	-	36,544	99,280
Advertising and publications	390	90	-	-	-	480	-	6,128	6,608	4,408
Postage	4,389	1,946	605	64	9	7,013	530	3,589	11,132	11,229
Printing	3,761	4,260	122	315	50	8,508	919	18,253	27,680	29,478
Licensing and permits	7,425	12,412	209	127	500	20,673	2,462	656	23,791	15,262
Interest	-	-	-	-	-	-	3,001	-	3,001	-
Contributions	-	-	-	-	-	-	1,274	525	1,799	1,913
Occupancy	8,215	13,776	-	-	-	21,991	34,872	6,349	63,212	56,725
Recognition	-	1,662	640	-	-	2,302	1,378	-	3,680	4,265
Other	124,509	448	-	-	-	124,957	13,100	11,712	149,769	66,860
	<u>4,802,365</u>	<u>6,155,615</u>	<u>157,146</u>	<u>118,085</u>	<u>199,044</u>	<u>11,432,255</u>	<u>1,323,269</u>	<u>418,018</u>	<u>13,173,542</u>	<u>13,013,634</u>
Allocated overhead costs	432,861	396,498	8,468	4,483	4,981	847,291	(855,261)	7,970	-	-
TOTAL EXPENSES	<u>\$ 5,235,226</u>	<u>\$ 6,552,113</u>	<u>\$ 165,614</u>	<u>\$ 122,568</u>	<u>\$ 204,025</u>	<u>\$ 12,279,546</u>	<u>\$ 468,008</u>	<u>\$ 425,988</u>	<u>\$ 13,173,542</u>	<u>\$ 13,013,634</u>

See Independent Auditors' Report.