

THE CAMPAGNA CENTER, INC.
(a nonprofit organization)

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 31, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017, 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 26 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. The 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, 2018, 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 the effectiveness of the Center's 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.

Risser and Company, CPA, P.C.

Alexandria, Virginia
December 31, 2018

THE CAMPAGNA CENTER, INC.

STATEMENT OF FINANCIAL POSITION

August 31, 2018

(with comparative information as of August 31, 2017)

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 905,767	\$ 1,164,635
Receivables, net of allowance	698,075	523,836
Prepaid expense	91,640	76,449
TOTAL CURRENT ASSETS	<u>1,695,482</u>	<u>1,764,920</u>
PROPERTY AND EQUIPMENT, at cost, net of accumulated depreciation	<u>1,036,349</u>	<u>801,270</u>
OTHER ASSETS		
Investments	1,721,343	1,512,661
Security deposits	11,000	1,000
TOTAL OTHER ASSETS	<u>1,732,343</u>	<u>1,513,661</u>
TOTAL ASSETS	<u>\$ 4,464,174</u>	<u>\$ 4,079,851</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 511,960	\$ 493,221
Refundable advances	325,888	527,613
Capital lease obligation	18,904	18,300
TOTAL CURRENT LIABILITIES	<u>856,752</u>	<u>1,039,134</u>
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	43,125	62,030
TOTAL LIABILITIES	<u>899,877</u>	<u>1,101,164</u>
NET ASSETS		
Without donor restrictions	3,453,544	2,819,638
With donor restrictions	110,753	159,049
TOTAL NET ASSETS	<u>3,564,297</u>	<u>2,978,687</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,464,174</u>	<u>\$ 4,079,851</u>

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.

STATEMENT OF ACTIVITIES

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Program funds from government grants	\$ 7,643,158	\$ -	\$ 7,643,158	\$ 7,737,557
Supplemental education fees	2,417,144	-	2,417,144	2,407,281
Contributions and grants	914,021	330,000	1,244,021	740,178
In-kind contributions	1,897,190	-	1,897,190	2,036,472
Special events and projects	398,495	-	398,495	410,884
Membership activities	24,100	-	24,100	19,500
Investment income	135,351	9,158	144,509	147,828
Other	57,461	-	57,461	48,693
Net assets released from restrictions	387,454	(387,454)	-	-
TOTAL REVENUE AND SUPPORT	13,874,374	(48,296)	13,826,078	13,548,393
EXPENSES				
Program	12,198,810	-	12,198,810	12,279,546
Management and general	535,252	-	535,252	468,008
Fundraising	506,406	-	506,406	425,988
TOTAL EXPENSES	13,240,468	-	13,240,468	13,173,542
CHANGE IN NET ASSETS	633,906	(48,296)	585,610	374,851
NET ASSETS, beginning of year	2,819,638	159,049	2,978,687	2,603,836
NET ASSETS, end of year	\$ 3,453,544	\$ 110,753	\$ 3,564,297	\$ 2,978,687

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

	2018			2017	
	Program	General and Administrative	Fund-Raising	Total	Total
Salaries, taxes, and benefits	\$ 7,430,512	\$ 421,106	\$ 254,575	\$ 8,106,193	\$ 8,113,975
Professional services	1,126,604	44,128	46,384	1,217,116	1,293,358
In-kind	1,896,693	-	497	1,897,190	2,036,472
Food expense	481,273	1,037	83	482,393	496,736
Supplies	441,520	1,507	30,528	473,555	292,636
Special activities and events	2,302	1,336	101,234	104,872	109,692
Telephone and technology	184,441	38,364	6,637	229,442	209,378
Training and development	32,567	19	6	32,592	9,735
Insurance	72,203	3,324	1,084	76,611	72,941
Depreciation	65,355	2,818	919	69,092	64,482
Program activities	207,418	38	-	207,456	122,685
Travel	19,695	84	252	20,031	24,236
Equipment, repairs and maintenance	70,442	1,178	386	72,006	36,544
Advertising and publications	6,329	-	3,516	9,845	6,608
Postage	6,557	507	2,473	9,537	11,132
Printing	16,493	113	18,987	35,593	27,680
Licensing and permits	21,548	381	1,695	23,624	23,791
Interest	-	2,340	-	2,340	3,001
Contributions	344	19	1,282	1,645	1,799
Occupancy	75,192	2,261	21,254	98,707	63,212
Recognition	559	3,267	-	3,826	3,680
Other	40,763	11,425	14,614	66,802	149,769
TOTAL EXPENSES	\$ 12,198,810	\$ 535,252	\$ 506,406	\$ 13,240,468	\$ 13,173,542

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.**STATEMENT OF CASH FLOWS****Year Ended August 31, 2018***(with comparative information for the year ended August 31, 2017)*

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operations		
Government grants, fees, contributions received	\$ 13,507,331	\$ 13,987,925
Investment income	89,136	47,987
Total cash received from operations	<u>13,596,467</u>	<u>14,035,912</u>
Cash disbursed by operations		
Payments to employees and suppliers	13,377,213	13,061,170
Interest paid	2,340	3,001
Total cash paid by operations	<u>13,379,553</u>	<u>13,064,171</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>216,914</u>	<u>971,741</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(161,395)	(118,006)
Purchases of building improvements	(304,171)	-
Proceeds from sale of investments	8,085	77,468
NET CASH USED BY INVESTING ACTIVITIES	<u>(457,481)</u>	<u>(40,538)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital leases	(18,301)	(14,803)
NET (DECREASE) INCREASE IN CASH	(258,868)	916,400
CASH, beginning of year	<u>1,164,635</u>	<u>248,235</u>
CASH, end of year	<u>\$ 905,767</u>	<u>\$ 1,164,635</u>
NON-CASH INVESTING ACTIVITIES		
Unrealized gain in fair value of investments	\$ (54,053)	\$ (94,422)
Increase in investment value	54,053	94,422
	<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, 2018

(with comparative information for the year ended August 31, 2017)

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	<u>\$ 585,610</u>	<u>\$ 374,851</u>
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	69,092	64,482
Realized and unrealized gains on investments	<u>(55,372)</u>	<u>(99,840)</u>
	<u>13,720</u>	<u>(35,358)</u>
CHANGES IN ASSETS AND LIABILITIES AFFECTING OPERATIONS PROVIDING (USING) CASH		
ASSETS		
Receivables, net of allowance	(174,239)	301,282
Prepaid expense	(15,191)	2,654
Security deposit	<u>(10,000)</u>	<u>-</u>
	<u>(199,430)</u>	<u>303,936</u>
LIABILITIES		
Accounts payable and accrued expenses	18,739	42,235
Refundable advances	<u>(201,725)</u>	<u>286,077</u>
	<u>(182,986)</u>	<u>328,312</u>
NET CHANGES IN ASSETS AND LIABILITIES	<u>(382,416)</u>	<u>632,248</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 216,914</u>	<u>\$ 971,741</u>

See Notes to Financial Statements.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

1. ORGANIZATION, PURPOSE, AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The Campagna Center, Inc. (the Center), is a community-based nonprofit 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, literacy tutoring/mentoring for elementary school students, 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. Sites have earned accreditation through the National Association for the Education of Young Children (NAEYC) and also participate in the Virginia Quality Initiative.

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. Sites are accredited through the National Association for the Education of Young Children and also participate in the Virginia Quality Initiative.

Campagna Early Learning Center (CELC) 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. Following its first full year of operation, CELC will prepare for accreditation through NAEYC and make plans for participation in the Virginia Quality Initiative.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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

Organization and Purpose (Continued)

Early Childhood Programs (Continued)

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.

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.

Wright to Read provides volunteer-based one-on-one sustained literacy tutoring and mentoring relationships to City of Alexandria elementary school children in need, and collaborates with families, schools and community partners to create a comprehensive support network that guides each child toward success.

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.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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

Summary of Significant Accounting Policies

Classes of Assets

In accordance with U.S. GAAP, the Center's net assets are classified into two categories: without donor restriction and with donor restriction. Net assets without donor restriction are available for the general operations of the Center or are designated by the Board for a particular purpose. Net assets with donor restriction are subject to donor-imposed stipulations as to their use for specific programs conducted by the Center or are held in perpetuity.

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.

Summarized Comparative 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 (U.S. GAAP). Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended August 31, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

As of August 31, 2018 and 2017, 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, 2018 and 2017. Cash and money market funds held by investment custodians are considered investments.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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

Summary of Significant Accounting Policies (Continued)

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 U.S. 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.

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 mutual funds, money market funds, and common and preferred stock. 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.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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

Summary of Significant Accounting Policies (Continued)

Restricted Revenue

Contributions received are recorded as support without donor restriction or support with donor restriction, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restriction, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

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, 2018 and 2017 are \$4,748 and \$6,608, respectively.

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 material taxable unrelated business income for the years ended August 31, 2018 and 2017.

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.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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

Summary of Significant Accounting Policies (Continued)

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 2017 financial statement presentation to conform to the classifications used in the 2018 financial statements.

Adoption of New Accounting Standard

The Center has adopted the financial statement presentation and disclosure standards contained in the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, modifying ASC 958. The change has been applied as of August 31, 2018, with no effect on beginning net assets.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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

Summary of Significant Accounting Policies (Continued)

Liquidity

The Center maintains a liquid cash balance in checking accounts in an amount necessary to meet its anticipated expenditures for the next 30 days. Cash in excess of this amount is invested in short-term investments.

The Center has maintained a line of credit of up to \$1,200,000 to help manage cash flow. There was no borrowing during the year ended August 31, 2018. The line of credit expires March 28, 2019 and the Center intends to renew the line of credit at that time.

The Center reconciles the balance of financial assets subject to donor restrictions monthly, based on restricted amounts used and received. Restricted cash and investments are separately identified and monitored as part of the Center's monthly financial reporting process.

The Center's financial assets available within one year to meet cash needs for general expenditures through August 31, 2019 are as follows:

Financial Assets		
Cash	\$	905,767
Investments		1,721,343
Accounts receivable		698,075
Total Financial assets		<u>3,325,185</u>
Less amounts not available within one year		
Purpose restricted net assets		<u>(110,753)</u>
Financial assets available within one year to meet cash needs for general expenditures within one year	\$	<u><u>3,214,432</u></u>

2. CASH

Cash at August 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Checking	\$ 904,567	\$ 1,163,435
Petty cash	<u>1,200</u>	<u>1,200</u>
	<u><u>\$ 905,767</u></u>	<u><u>\$ 1,164,635</u></u>

As of August 31, 2018 and 2017, bank balances not insured by the Federal Deposit Insurance Corporation were \$943,271 and \$1,163,377, respectively.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

3. RECEIVABLES

Receivables at August 31 consisted of the following:

Program funds from governments	2018	2017
Campagna Kids	\$ 46,086	\$ 28,873
Head Start	333,150	277,761
Early Head Start	226,949	131,510
Family Child Care Partnership Project	78,522	68,455
	<u>684,707</u>	<u>506,599</u>
Supplemental education fees	21,760	25,629
	<u>706,467</u>	<u>532,228</u>
Less: Provision for doubtful accounts	<u>(8,392)</u>	<u>(8,392)</u>
	<u><u>\$ 698,075</u></u>	<u><u>\$ 523,836</u></u>

4. PROPERTY AND EQUIPMENT

Property, equipment, and accumulated depreciation at August 31, 2018 and 2017, and depreciation expense for the years then ended is as follows:

	August 31, 2018			
	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	1,537,657	935,139	48,626
Furniture and equipment	3 to 10 years	105,936	36,322	20,466
Automobiles	5 years	73,794	73,794	-
		<u>\$ 2,231,527</u>	<u>\$ 1,195,178</u>	<u>\$ 69,092</u>
	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>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

4. PROPERTY AND EQUIPMENT (Continued)

The Center's property is recorded at historical cost in accordance with U.S. 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:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,979,500	\$ 2,979,500
Building	850,000	850,000
	<u>\$ 3,829,500</u>	<u>\$ 3,829,500</u>

5. INVESTMENTS

The Center had the following investments as of August 31:

	<u>2018</u>	<u>2017</u>
Mutual funds		
Foreign Large Value	\$ 48,578	\$ 115,036
Intermediate-Term Bond	54,708	57,739
Large Blend	123,593	116,623
Large Growth	162,465	357,247
Large Value/World Allocation	243,269	346,649
Short-Term Bond	81,533	66,208
Mid-Cap Growth	190,294	138,850
Income Fund	182,489	189,813
Small Growth	91,897	88,209
Foreign Large Growth	204,597	-
Large Growth/Moderate Alloc	92,220	-
Large Value/Moderate Alloc	95,150	-
Ultrashort Bond	64,000	-
Large Value	18,749	-
Money market funds	55,281	33,445
Preferred stock	12,520	-
Common stock	-	2,842
	<u>\$ 1,721,343</u>	<u>\$ 1,512,661</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

5. INVESTMENTS (Continued)

Investments are allocated to the following classes of net assets:

	2018	2017
Net assets without donor restrictions	\$ 1,610,590	\$ 1,432,364
Net assets with donor restrictions	110,753	80,297
	<u>\$ 1,721,343</u>	<u>\$ 1,512,661</u>

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

	2018	2017
Dividend and interest income	\$ 104,196	\$ 63,518
Capital gain, realized	1,319	5,418
Unrealized gain in market value	54,053	94,422
Investment management fees	<u>(15,059)</u>	<u>(15,530)</u>
	<u>\$ 144,509</u>	<u>\$ 147,828</u>

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.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

6. FAIR VALUE MEASUREMENTS (Continued)

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 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, 2018	
	Total	Level 1
Mutual funds		
Foreign Large Value	\$ 48,578	\$ 48,578
Intermediate-Term Bond	54,708	54,708
Large Blend	123,593	123,593
Large Growth	162,465	162,465
Large Value/World Allocation	243,269	243,269
Short-Term Bond	81,533	81,533
Mid-Cap Growth	190,294	190,294
Income Fund	182,489	182,489
Small Growth	91,897	91,897
Foreign Large Growth	204,597	204,597
Large Growth/Moderate Alloc	92,220	92,220
Large Value/Moderate Alloc	95,150	95,150
Ultrashort Bond	64,000	64,000
Large Value	18,749	18,749
Money market funds	55,281	55,281
Preferred stock	12,520	12,520
	<u>\$ 1,721,343</u>	<u>\$ 1,721,343</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

6. FAIR VALUE MEASUREMENTS (Continued)

	August 31, 2017	
	Total	Level 1
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>

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:

	2018	2017
Campagna Kids program	\$ 93,680	\$ 55,762
W.K. Kellogg Foundation	112,673	468,427
Other	119,535	3,424
	<u>\$ 325,888</u>	<u>\$ 527,613</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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:	Total Payments	Interest Portion	Net
2019	\$ 20,640	\$ 1,736	\$ 18,904
2020	20,640	1,112	19,528
2021	20,640	468	20,172
2022	3,440	15	3,425
	<u>\$ 65,360</u>	<u>\$ 3,331</u>	<u>\$ 62,029</u>

Total payments relating to this lease during the year ended August 31, 2018 were \$20,641, including \$2,340 in interest payments.

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, 2018 and 2017, the interest rate was 5.75% and 4.75%, respectively. The maturity date is March 28, 2019 and the Center intends to renew the line of credit at that time. The unused line of credit at August 31, 2018 and 2017 was \$1,200,000. The outstanding balance on this line of credit was \$0 at August 31, 2018 and 2017, respectively.

The interest expense related to this line of credit was \$0 for the years ended August 31, 2018 and 2017.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

10. ENDOWMENTS

The Center's endowments represent funds received for the Sonosky Fund that were established for scholarships via donor restriction. As required by U.S. 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 net assets with donor restriction (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 net assets with donor restriction is classified as net assets with donor restriction 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 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.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

10. ENDOWMENTS (Continued)

Endowment funds as of August 31, 2018 and 2017 are as follows:

Balance as of August 31, 2016	\$ 72,241
Investment income	3,006
Change in fair value of investments	5,050
Balance as of August 31, 2017	<u>\$ 80,297</u>
Balance as of August 31, 2017	\$ 80,297
Investment income	6,002
Change in fair value of investments	3,156
Balance as of August 31, 2018	<u>\$ 89,455</u>

11. NET ASSETS WITH DONOR RESTRICTIONS

As of August 31, 2018 and 2017, net assets with donor restriction balances consisted of the following:

	2018			
	Balance August 31, 2017	Additions	Releases	Balance August 31, 2018
Sonosky Fund (Endowment)	\$ 80,297	\$ 9,158	\$ -	\$ 89,455
Head Start related costs	78,752	-	(78,752)	-
Wright to Read	-	150,000	(128,702)	21,298
FCCP	-	45,000	(45,000)	-
St. James ELC	-	135,000	(135,000)	-
	<u>\$ 159,049</u>	<u>\$ 339,158</u>	<u>\$ (387,454)</u>	<u>\$ 110,753</u>
	2017			
	Balance August 31, 2016	Additions	Releases	Balance August 31, 2017
Sonosky Fund (Endowment)	\$ 72,241	\$ 8,056	\$ -	\$ 80,297
Head Start related costs	-	92,127	(13,375)	78,752
	<u>\$ 72,241</u>	<u>\$ 100,183</u>	<u>\$ (13,375)</u>	<u>\$ 159,049</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Donated rent and facilities	\$ 1,830,149	\$ 1,817,900
Donated goods - events	344	34,173
Donated goods - programs	503	29,050
Donated professional services	<u>66,194</u>	<u>155,349</u>
	<u>\$ 1,897,190</u>	<u>\$ 2,036,472</u>

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, 2018 and 2017.

14. MAJOR GRANTORS

Program funds from government grants totaled \$7,643,158 for the year ended August 31, 2018 and \$7,737,557 for the year ended August 31, 2017, which is approximately 55% and 57% 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, 2018 and 2017 the amount outstanding from the above government grants was \$684,707 and \$506,599, respectively, which approximates 97% and 95% of total receivables, respectively.

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

15. CONDITIONAL GRANTS

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

Head Start	\$ 2,287,075
Early Head Start	1,418,117
Family and Childcare Partnership	<u>949,944</u>
	<u>\$ 4,655,136</u>

16. COMMITMENTS AND CONTINGENCIES

Government 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.

Classroom Lease

The Center has entered into an operating sublease for classroom space at St. James Plaza in Alexandria. The lease commenced July 1, 2018 and will continue through June 30, 2028. The lease includes options for renewing and terminating that agreement during this time period.

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

For the fiscal year ended:	
2019	\$ 23,698
2020	24,409
2021	25,141
2022	25,895
2023	26,672
2024 - 2028	<u>140,573</u>
	<u>\$ 266,388</u>

THE CAMPAGNA CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

17. SUBSEQUENT EVENTS

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through December 31, 2018, the date the financial statements were available to be issued.

Contingencies

Subsequent to the fiscal year end, the Certificate of Ratification was executed by the Board of Directors for the sale of the Center's building property. The due diligence period related to the sale commenced immediately thereon and the transaction is proceeding as anticipated.

Also subsequent to the fiscal year end, the purchase and sales agreement for a new headquarters site was executed by the Board of Directors. The due diligence period related to the agreement ended and the transaction is proceeding as anticipated.

SUPPLEMENTARY INFORMATION

THE CAMPAGNA CENTER, INC.

SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNCTIONAL EXPENSES BY PROGRAM

Year Ended August 31, 2018

(with summarized comparative information for the year ended August 31, 2017)

	2018						2017			
	Program Services					Support Services			Total	
	Campagna Kids	Early Childhood Education	Building Better Futures	New Neighbors	Wright to Read and Other	Total Program	Management and General	Fund-Raising		
Salaries, taxes, and benefits	\$ 3,321,588	\$ 3,688,384	\$ 74,046	\$ 112,937	\$ 233,557	\$ 7,430,512	\$ 421,106	\$ 254,575	\$ 8,106,193	\$ 8,113,975
Professional services	277,180	775,528	12,534	2,641	58,721	1,126,604	44,128	46,384	1,217,116	1,293,358
In-kind	925,750	970,943	-	-	-	1,896,693	-	497	1,897,190	2,036,472
Food expense	122,259	356,196	2,741	20	57	481,273	1,037	83	482,393	496,736
Supplies	276,789	122,808	2,255	15,692	23,976	441,520	1,507	30,528	473,555	292,636
Special activities and events	1,095	997	56	77	77	2,302	1,336	101,234	104,872	109,692
Telephone and technology	90,300	74,730	3,797	1,219	14,395	184,441	38,364	6,637	229,442	209,378
Training and development	412	10,639	77	92	21,347	32,567	19	6	32,592	9,735
Insurance	33,568	35,332	701	1,083	1,519	72,203	3,324	1,084	76,611	72,941
Depreciation	28,814	34,505	306	306	1,424	65,355	2,818	919	69,092	64,482
Program activities	176,751	13,076	7,278	575	9,738	207,418	38	-	207,456	122,685
Travel	703	10,853	1,349	42	6,748	19,695	84	252	20,031	24,236
Equipment, repairs and maintenance	14,654	21,004	128	128	34,528	70,442	1,178	386	72,006	36,544
Advertising and publications	6,239	90	-	-	-	6,329	-	3,516	9,845	6,608
Postage	4,378	1,802	155	75	147	6,557	507	2,473	9,537	11,132
Printing	7,304	8,171	73	456	489	16,493	113	18,987	35,593	27,680
Licensing and permits	6,779	8,416	54	118	6,181	21,548	381	1,695	23,624	23,791
Interest	-	-	-	-	-	-	2,340	-	2,340	3,001
Contributions	171	162	2	2	7	344	19	1,282	1,645	1,799
Occupancy	31,120	36,423	322	328	6,999	75,192	2,261	21,254	98,707	63,212
Recognition	-	-	141	-	418	559	3,267	-	3,826	3,680
Other	40,763	-	-	-	-	40,763	11,425	14,614	66,802	149,769
TOTAL EXPENSES	\$ 5,366,617	\$ 6,170,059	\$ 106,015	\$ 135,791	\$ 420,328	\$ 12,198,810	\$ 535,252	\$ 506,406	\$ 13,240,468	\$ 13,173,542

See Independent Auditors' Report.