

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

THE CAMPAGNA ACADEMY, INC.

DECEMBER 31, 2009 AND 2008

SWARTZ, RETSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
235 E. 86TH AVENUE
MERRILLVILLE, IN 46410

THE CAMPAGNA ACADEMY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Campagna Academy, Inc.
7403 Cline Avenue
Scherverville, IN 46375

We have audited the accompanying statements of financial position of The Campagna Academy, Inc. as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Campagna Academy, Inc. as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Swartz, Retson & Co., P.C.

Merrillville, IN
April 3, 2010

THE CAMPAGNA ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008
SEE INDEPENDENT AUDITOR'S REPORT

ASSETS

| | <u>2009</u> | <u>2008</u> |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 2,600,029 | \$ 1,531,413 |
| Cash – Restricted Bond Proceeds | 17,201 | 926,410 |
| Accounts Receivable – Net of Allowance of \$1,613 and \$19,693, respectively | 1,320,588 | 1,904,484 |
| Contributions Receivable – Net of Allowance of \$500 and \$8,085, respectively | 20,034 | 61,417 |
| Other Assets | 39,609 | 28,383 |
| Investments | 4,632,977 | 4,320,149 |
| Property and Equipment | 14,667,773 | 14,703,182 |
| Bond Issuance Costs – Net of Accumulated Amortization of \$14,796 and \$9,068, respectively | <u>128,388</u> | <u>134,116</u> |
| TOTAL ASSETS | <u>\$23,426,599</u> | <u>\$23,609,554</u> |

LIABILITIES AND NET ASSETS

| | | |
|--------------------------------------|-------------------------|-------------------------|
| LIABILITIES | | |
| Accounts Payable | \$ 209,160 | \$ 215,952 |
| Accrued Liabilities | 374,068 | 866,719 |
| Deferred Revenue | 111,278 | 11,722 |
| Interest Rate Swap | 583,675 | 1,179,610 |
| Long-Term Debt | <u>9,052,700</u> | <u>9,087,928</u> |
| Total Liabilities | <u>10,330,881</u> | <u>11,361,931</u> |
| NET ASSETS | | |
| Unrestricted | 13,021,283 | 12,113,721 |
| Temporarily Restricted | 24,435 | 83,902 |
| Permanently Restricted | <u>50,000</u> | <u>50,000</u> |
| Total Net Assets | <u>13,095,718</u> | <u>12,247,623</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$23,426,599</u> | <u>\$23,609,554</u> |

The accompany notes are an integral part of these financial statements.

THE CAMPAGNA ACADEMY, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009
SEE INDEPENDENT AUDITORS' REPORT

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Totals</u> |
|--|---------------------|----------------------------------|----------------------------------|---------------------|
| REVENUES, GAINS, AND OTHER SUPPORT | | | | |
| Grants and Contracts | \$ 64,119 | \$ 00 | \$ 00 | \$ 64,119 |
| Tuition Related Revenue | 1,260,593 | 00 | 00 | 1,260,593 |
| Contributions | 70,726 | 4,454 | 00 | 75,180 |
| Per Diem Allowances | 6,832,970 | 00 | 00 | 6,832,970 |
| Outpatient Revenue | 24,045 | 00 | 00 | 24,045 |
| Medicaid Reimbursement | 305,183 | 00 | 00 | 305,183 |
| Food Reimbursement | 91,792 | 00 | 00 | 91,792 |
| Investment Income (Loss) | 900,236 | 00 | 00 | 900,236 |
| Special Events | 114,268 | 00 | 00 | 114,268 |
| In-Kind Revenue | 23,729 | 00 | 00 | 23,729 |
| Other Income | 18,434 | 00 | 00 | 18,434 |
| Gain on Sale of Assets | 6,150 | 00 | 00 | 6,150 |
| Interest Rate Swap | <u>595,934</u> | <u>00</u> | <u>00</u> | <u>595,934</u> |
| Total Revenues, Gains, and Other Support | | | | |
| Prior to Net Assets Released from Restrictions | 10,308,179 | 4,454 | 00 | 10,312,633 |
| Net Assets Released from Restrictions | <u>63,921</u> | <u>(63,921)</u> | <u>00</u> | <u>00</u> |
| Total Revenues, Gains, and Other Support | <u>10,372,100</u> | <u>(59,467)</u> | <u>00</u> | <u>10,312,633</u> |
| EXPENSES | | | | |
| Program Services | 7,719,783 | 00 | 00 | 7,719,783 |
| Management and General | 1,432,784 | 00 | 00 | 1,432,784 |
| Fundraising | <u>311,971</u> | <u>00</u> | <u>00</u> | <u>311,971</u> |
| Total Expenses | <u>9,464,538</u> | <u>00</u> | <u>00</u> | <u>9,464,538</u> |
| CHANGE IN NET ASSETS | 907,562 | (59,467) | 00 | 848,095 |
| NET ASSETS – Beginning of Year | <u>12,113,721</u> | <u>83,902</u> | <u>50,000</u> | <u>12,247,623</u> |
| NET ASSETS – End of Year | <u>\$13,021,283</u> | <u>\$ 24,435</u> | <u>\$ 50,000</u> | <u>\$13,095,718</u> |

The accompanying notes are an integral part of these financial statements.

THE CAMPAGNA ACADEMY, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008
SEE INDEPENDENT AUDITORS' REPORT

| | <u>Unrestricted</u> | Temporarily <u>Restricted</u> | Permanently <u>Restricted</u> | <u>Totals</u> |
|--|---------------------|----------------------------------|----------------------------------|---------------------|
| REVENUES, GAINS, AND OTHER SUPPORT | | | | |
| Grants and Contracts | \$ 71,074 | \$ 00 | \$ 00 | \$ 71,074 |
| Tuition Related Revenue | 1,177,898 | 00 | 00 | 1,177,898 |
| Contributions | 1,046,964 | 14,400 | 00 | 1,061,364 |
| Per Diem Allowances | 4,391,789 | 00 | 00 | 4,391,789 |
| Outpatient Revenue | 37,795 | 00 | 00 | 37,795 |
| Medicaid Reimbursement | 500,751 | 00 | 00 | 500,751 |
| Food Reimbursement | 59,833 | 00 | 00 | 59,833 |
| Investment Income (Loss) | (1,632,388) | 00 | 00 | (1,632,388) |
| Special Events | 123,284 | 00 | 00 | 123,284 |
| Other Income | 12,509 | 00 | 00 | 12,509 |
| Gain on Sale of Assets | <u>6,475</u> | <u>00</u> | <u>00</u> | <u>6,475</u> |
| Total Revenues, Gains, and Other Support | | | | |
| Prior to Net Assets Released from Restrictions | 5,795,984 | 14,400 | 00 | 5,810,384 |
| Net Assets Released from Restrictions | <u>17,583</u> | <u>(17,583)</u> | <u>00</u> | <u>00</u> |
| Total Revenues, Gains, and Other Support | <u>5,813,567</u> | <u>(3,183)</u> | <u>00</u> | <u>5,810,384</u> |
| EXPENSES | | | | |
| Program Services | 6,005,577 | 00 | 00 | 6,005,577 |
| Management and General | 1,369,736 | 00 | 00 | 1,369,736 |
| Fundraising | 258,801 | 00 | 00 | 258,801 |
| Interest Rate Swap Expense | <u>845,134</u> | <u>00</u> | <u>00</u> | <u>845,134</u> |
| Total Expenses | <u>8,479,248</u> | <u>00</u> | <u>00</u> | <u>8,479,248</u> |
| CHANGE IN NET ASSETS | (2,665,681) | (3,183) | 00 | (2,668,864) |
| NET ASSETS – Beginning of Year | <u>14,779,402</u> | <u>87,085</u> | <u>50,000</u> | <u>14,916,487</u> |
| NET ASSETS – End of Year | <u>\$12,113,721</u> | <u>\$ 83,902</u> | <u>\$ 50,000</u> | <u>\$12,247,623</u> |

The accompanying notes are an integral part of these financial statements.

THE CAMPAGNA ACADEMY, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008
SEE INDEPENDENT AUDITORS' REPORT

| | The Campagna Academy, Inc. | | | The Campagna Academy Charter School | | | | | |
|---|----------------------------|--------------------|------------------|-------------------------------------|------------------|------------------|--------------------|--------------------|--------------------|
| | Program Services | Mgmt & General | Fund-Raising | Total | Program Services | Mgmt & General | Total | Eliminations | Combined Total |
| SALARIES AND RELATED EXPENSES | | | | | | | | | |
| Salaries | \$2,269,493 | \$ 447,759 | \$146,817 | \$2,864,069 | \$579,800 | \$ 30,516 | \$ 610,316 | \$ 00 | \$3,474,385 |
| Health Insurance | 308,316 | 60,829 | 19,945 | 389,091 | 72,061 | 3,793 | 75,854 | 00 | 464,945 |
| Pension Plan Contribution | 123,184 | 24,034 | 7,969 | 155,457 | 38,990 | 2,052 | 41,042 | 00 | 196,499 |
| Payroll Taxes | 189,771 | 37,441 | 12,277 | 239,489 | 44,620 | 2,348 | 46,968 | 00 | 286,457 |
| Paid Time Off and Vacation Expense | 6,051 | 1,194 | 391 | 7,636 | 00 | 00 | 00 | 00 | 7,636 |
| Total Salaries and Related Expenses | 2,896,815 | 571,527 | 187,399 | 3,655,742 | 735,471 | 38,709 | 774,180 | 00 | 4,429,922 |
| EXPENSES | | | | | | | | | |
| Professional Fees | 64,011 | 33,483 | 985 | 98,479 | 00 | 111,866 | 111,866 | (84,750) | 125,595 |
| Consultants | 161,141 | 149,653 | 00 | 310,794 | 00 | 11,693 | 11,693 | 00 | 322,487 |
| Insurance | 150,172 | 35,666 | 1,877 | 187,715 | 20,220 | 5,055 | 25,275 | (24,600) | 188,390 |
| Youth Personal and Allowance | 30,942 | 00 | 00 | 30,942 | 00 | 00 | 00 | 00 | 30,942 |
| Education | 40,285 | 00 | 00 | 40,285 | 17,286 | 00 | 17,286 | 00 | 57,571 |
| Food and Kitchen Supplies | 139,026 | 15,447 | 00 | 154,473 | 24,480 | 6,120 | 30,600 | 00 | 185,073 |
| Office Supplies and Furnishings Expense | 45,434 | 28,776 | 1,514 | 75,724 | 6,154 | 3,314 | 9,468 | 00 | 85,192 |
| Clothing | 19,275 | 2,921 | 00 | 22,196 | 00 | 00 | 00 | 00 | 22,196 |
| Recreation | 10,214 | 00 | 00 | 10,214 | 00 | 00 | 00 | 00 | 10,214 |
| Laundry and Cleaning Supplies | 18,554 | 2,061 | 00 | 20,615 | 00 | 00 | 00 | 00 | 20,615 |
| Medical | 3,752 | 1,250 | 00 | 5,002 | 00 | 00 | 00 | 00 | 5,002 |
| Employee Business and Education | 43,564 | 29,042 | 00 | 72,606 | 6,780 | 3,651 | 10,431 | 00 | 83,037 |
| Meetings and Travel | 643 | 3,642 | 00 | 4,285 | 00 | 00 | 00 | 00 | 4,285 |
| Dues and Subscriptions | 11,214 | 6,038 | 00 | 17,252 | 00 | 00 | 00 | 00 | 17,252 |
| Repairs and Maintenance | 317,607 | 43,808 | 3,651 | 365,066 | 47,815 | 7,145 | 54,960 | (54,960) | 365,066 |
| Security | 17,894 | 2,468 | 206 | 20,568 | 00 | 00 | 00 | 00 | 20,568 |
| Marketing and Admissions | 3,409 | 7,345 | 22,034 | 32,788 | 612 | 408 | 1,020 | 00 | 33,808 |
| Utilities | 190,395 | 26,262 | 2,188 | 218,845 | 26,622 | 3,978 | 30,600 | (30,600) | 218,845 |
| Rent | 00 | 00 | 00 | 00 | 50,168 | 7,496 | 57,664 | (50,520) | 7,144 |
| Auto Expense | 85,595 | 15,105 | 00 | 100,700 | 2,337 | 00 | 2,337 | (2,337) | 100,700 |
| Telephone | 29,037 | 8,905 | 774 | 38,716 | 00 | 00 | 00 | 00 | 38,716 |
| Management Information Systems | 77,336 | 139,204 | 4,419 | 220,959 | 14,715 | 7,923 | 22,638 | 00 | 243,597 |
| Capital Campaign Expense | 00 | 00 | 7,621 | 7,621 | 00 | 00 | 00 | 00 | 7,621 |
| Hopes and Dreams Campaign | 00 | 00 | 5,964 | 5,964 | 00 | 00 | 00 | 00 | 5,964 |
| Programming | 113,517 | 00 | 00 | 113,517 | 13,265 | 00 | 13,265 | 00 | 126,782 |
| Interest | 298,310 | 00 | 00 | 298,310 | 1,785 | 00 | 1,785 | 00 | 300,095 |
| Fundraising | 00 | 00 | 23,726 | 23,726 | 00 | 00 | 00 | 00 | 23,726 |
| Amortization | 9,068 | 00 | 00 | 9,068 | 00 | 00 | 00 | 00 | 9,068 |
| Depreciation | 454,314 | 74,828 | 5,345 | 534,487 | 10,155 | 00 | 10,155 | 00 | 544,642 |
| TOTAL FUNCTIONAL EXPENSES | \$5,231,524 | \$1,197,431 | \$267,703 | \$6,696,659 | \$977,865 | \$207,358 | \$1,185,223 | \$(247,767) | \$7,634,115 |

The accompanying notes are an integral part of the financial statements.

THE CAMPAGNA ACADEMY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
SEE INDEPENDENT AUDITORS' REPORT

| | <u>2009</u> | <u>2008</u> |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | \$ 848,095 | \$(2,668,864) |
| Change in Net Assets | | |
| Adjustments to Reconcile Net Income to Net Cash | | |
| Provided by Operating Activities | | |
| Depreciation | 644,669 | 544,642 |
| Amortization | 5,727 | 9,068 |
| Realized and Unrealized (Gain) Loss on Investments | (732,843) | 1,851,829 |
| (Gain) on Disposal of Assets | (6,150) | (6,475) |
| Increase (Decrease) in Allowance for Doubtful Accounts | (25,665) | (2,855) |
| Change in Interest Rate Swap Liability | (595,935) | 845,134 |
| (Increase) Decrease in: | | |
| Accounts Receivable | 609,561 | (685,751) |
| Contributions Receivable | 41,383 | 292,583 |
| Other Assets | (11,227) | (4,177) |
| Increase (Decrease) in: | | |
| Accounts Payable | (6,792) | (877,322) |
| Accrued Liabilities | (492,649) | 279,884 |
| Deferred Revenue | <u>99,556</u> | <u>(43,986)</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>377,730</u> | <u>(466,290)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Property and Equipment | (613,835) | (5,385,539) |
| Proceeds from Disposal of Assets | 10,725 | 6,475 |
| Purchase of Investments | (4,308,770) | (7,988,925) |
| Proceeds from Sale of Investment Securities | <u>4,728,785</u> | <u>7,610,976</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(183,095)</u> | <u>(5,757,013)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal Payments on Long-Term Debt | <u>(35,228)</u> | <u>(83,032)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 159,407 | (6,306,335) |
| CASH AND CASH EQUIVALENTS-Beginning of Year | <u>2,457,823</u> | <u>8,764,158</u> |
| CASH AND CASH EQUIVALENTS-End of Year | <u>\$2,617,230</u> | <u>\$2,457,823</u> |
| Cash and Cash Equivalents | \$2,600,029 | \$1,531,413 |
| Cash - Restricted for Capital Projects | <u>17,201</u> | <u>926,410</u> |
| Total Cash and Cash Equivalents | <u>\$2,617,230</u> | <u>\$2,457,823</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION | | |
| CASH PAID DURING THE YEAR FOR: | | |
| Interest | <u>\$ 426,677</u> | <u>\$ 300,095</u> |
| SCHEDULE OF NON-CASH INVESTING AND FINANCING TRANSACTIONS | | |
| Fixed Asset Purchases in Accounts Payable and Accrued Expenses | <u>\$ 00</u> | <u>\$ 522,075</u> |
| Impairment on Reevaluation of Land | <u>\$ 351,800</u> | <u>\$ 00</u> |

The accompanying notes are an integral part of the financial statements.

THE CAMPAGNA ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008 SEE INDEPENDENT AUDITORS' REPORT

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Campagna Academy, Inc. ("the Organization") was founded in 1944 in Gary, Indiana as Hoosier Town, Inc. by Father Campagna, a local priest. The Organization was formed to assist in the rehabilitation of emotionally disturbed boys.

The Organization moved to Schererville in 1956 and now offers various child welfare programs for boys and girls. The Organization's key programs consist of on-campus open residential and secure residential programs, an alternative day-treatment program and a charter school.

The Organization receives significant funding for its programs through the Lake County Department of Public Welfare. Funding is provided on a per diem basis.

Basis of Presentation

The financial statements include the accounts of The Campagna Academy, Inc. and The Campagna Academy Charter School (a program of The Campagna Academy, Inc.) All inter-organizational accounts and transactions have been eliminated.

Use of Estimates in Preparation of Financial Statements

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

Financial Statement Presentation

The Organization is required to report 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. Contributions whose restrictions are met in the same period as the recognition of the contribution are considered unrestricted for reporting purposes.

Contributions

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

Cash and Cash Equivalents

Cash, as presented on the accompanying balance sheets and statements of cash flows, includes cash on hand and deposits in interest bearing and non-interest bearing accounts in financial institutions. Cash equivalents consist of highly liquid accounts with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments and stated at cost, which approximates market value.

THE CAMPAGNA ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
SEE INDEPENDENT AUDITORS' REPORT

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Accounts Receivable

The Organization maintains an allowance for doubtful accounts carried at an amount which bad accounts are reasonably expected not to exceed. Receivables are considered past due when payment is not received within the period allowed under terms of the sales. Periodically, the Organization's management reviews past due receivables and allows for all accounts deemed uncollectible after all reasonable collection efforts have been exhausted.

Property and Equipment

Property, equipment and improvements are carried at cost. The Organization capitalizes expenditures over \$2,500 with lives of over three years. Depreciation and amortization expense is computed using straight-line and accelerated methods over the estimated useful life of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss resulting from the transactions is recognized as income for the period. The cost of repairs and maintenance is charged to income as incurred; significant renewals and betterments are capitalized. The depreciation expense for the years ended December 31, 2009 and 2008 was \$644,669 and \$544,642, respectively.

The Organization capitalizes property and equipment using the following estimated useful lives:

| <u>Items</u> | <u>Years</u> |
|---------------------------------------|--------------|
| Buildings and Recreational Facilities | 10-35 |
| Furniture and Fixtures | 3-10 |
| Machinery and Equipment | 3-20 |
| Transportation Equipment | 5-7 |
| Land Improvements | 5-10 |

Income Taxes

The Organization is a not-for-profit corporation organized under the laws of the State of Indiana. The Internal Revenue Service has ruled that the Organization qualifies under Section 501(c)(3) of the Internal Revenue Code, and is therefore not subject to tax under present income tax laws. The Organization is not considered to be a private foundation.

THE CAMPAGNA ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
SEE INDEPENDENT AUDITORS' REPORT

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial Instruments and Credit Risk

The Organization provides services to persons based primarily in Northwest Indiana. As such, the Organization's accounts receivable are from organizations within the same geographic region. The provision of services give rise to unsecured accounts receivable, as is common industry practice.

At December 31, 2009, the Organization has \$1,371,227 in financial institutions in excess of the Federal Deposit Insurance Corporations' (FDIC) insured level of \$250,000. The amount of potential exposure is computed based on the bank's statement balance at December 31, 2009, and is not adjusted for the outstanding checks and other in-transit items reflected in the Organization's records.

Uncertain Income Tax Positions

In 2009, the Organization adopted the provisions of standards relating to uncertain tax positions. When applicable, changes in benefits arising from current and prior tax positions taken by the Organization are recognized in the period in which the change occurs. Changes resulting from settlements with taxing authorities are recognized in the period that settlement occurs. Reductions in unrecognized tax benefits as a result of a lapse of the applicable statute of limitations are recognized in the period the statute lapses. Projected penalties and interest recognized on tax positions where it is reasonably possible that the Organization's tax position will not prevail in a review by taxing authorities is recognized as part of current period income tax expense. Management believes that tax periods 2006, 2007, 2008, and 2009 remain subject to examination by taxing jurisdictions. Management believes that the effects of adoption are immaterial to the financial statements.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2009 and 2008 are as follows:

| | <u>2009</u> | <u>2008</u> |
|---|------------------|------------------|
| Due within one year | \$ 12,739 | \$ 69,502 |
| Due within one to five years | <u>7,795</u> | <u>00</u> |
| | 20,534 | 69,502 |
| Less: Allowance for Uncollectible Contributions | <u>500</u> | <u>(8,085)</u> |
| Total Contributions Receivable | <u>\$ 20,034</u> | <u>\$ 61,417</u> |

THE CAMPAGNA ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
SEE INDEPENDENT AUDITORS' REPORT

NOTE 3 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

A fair value hierarchy has been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|------------------|----------------|----------------|
| Total assets at fair value at December 31, 2009 | | | |
| Investments: | | | |
| U.S. Government Securities | \$ 402,578 | | |
| Common Stock | 612,714 | | |
| Corporate Bonds | 505,896 | | |
| Mutual Funds | <u>3,111,789</u> | | |
| Total | \$4,632,977 | | |
| Land | | \$489,200 | |
| Total liabilities at fair value at December 31, 2009 | | | |
| Interest Rate Swap | | \$583,675 | |

The Organization received a land donation for property located in Merrillville, Indiana during the year ending December 31, 2008. In 2009, the Organization revalued the property to its assessed value as determined by the Assessor of Lake County, Indiana. Management determined that this approximated the fair value of the property.

THE CAMPAGNA ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
SEE INDEPENDENT AUDITORS' REPORT

NOTE 4 - INVESTMENTS

The Organization has investments which are reported at fair value. The cost and fair value of investments as of December 31, 2009 and 2008 is as follows:

| 2009 | | | |
|----------------------------|--------------------|--------------------|-------------------|
| <u>Description</u> | <u>Cost</u> | <u>Market</u> | <u>Unrealized</u> |
| U.S. Government Securities | \$ 384,335 | \$ 402,578 | \$ 18,243 |
| Common Stock | 523,856 | 612,714 | 88,858 |
| Corporate Bonds | 489,743 | 505,896 | 16,153 |
| Mutual Funds | <u>2,946,171</u> | <u>3,111,789</u> | <u>165,618</u> |
| | <u>\$4,344,105</u> | <u>\$4,632,977</u> | <u>\$288,872</u> |

| 2008 | | | |
|----------------------------|--------------------|--------------------|--------------------|
| <u>Description</u> | <u>Cost</u> | <u>Market</u> | <u>Unrealized</u> |
| U.S. Government Securities | \$ 970,178 | \$1,010,731 | \$ 40,553 |
| Common Stock | 3,107,232 | 2,348,445 | (758,787) |
| Corporate Bonds | 543,938 | 533,736 | (10,203) |
| Mutual Funds | <u>496,370</u> | <u>427,238</u> | <u>(69,132)</u> |
| | <u>\$5,117,718</u> | <u>\$4,320,149</u> | <u>\$(797,569)</u> |

Investment income consists of:

| | <u>2009</u> | <u>2008</u> |
|-----------------------------------|------------------|----------------------|
| Interest and Dividends | \$167,393 | \$ 219,441 |
| Net Realized and Unrealized Gains | <u>732,843</u> | <u>(1,851,829)</u> |
| Total Return on Investments | <u>\$900,236</u> | <u>\$(1,632,388)</u> |

Investment fees were \$32,417 and \$44,618 for the years ended December 31, 2009 and 2008, respectively.

NOTE 5 - CONCENTRATION OF REVENUE

The Organization received 66% and 76% of its revenues from various Indiana county per diem allowances for the years ended December 31, 2009 and 2008, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

The Organization's property and equipment for the years ended December 31, 2009 and 2008 are as follows:

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NOTE 6 - PROPERTY AND EQUIPMENT CONTINUED

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|---------------------|---------------------|
| Buildings and Recreational Facilities | \$15,455,813 | \$15,858,168 |
| Furniture and Fixtures | 475,095 | 585,298 |
| Machinery and Equipment | 625,878 | 765,029 |
| Transportation Equipment | 402,939 | 430,193 |
| Land Improvements | <u>1,019,625</u> | <u>1,019,625</u> |
| | 17,979,350 | 18,658,313 |
| Less: Accumulated Depreciation | <u>3,819,375</u> | <u>3,973,729</u> |
| | 14,159,975 | 14,684,584 |
| Land | <u>507,798</u> | <u>18,598</u> |
| Total Property and Equipment | <u>\$14,667,773</u> | <u>\$14,703,182</u> |

NOTE 7 - LONG-TERM DEBT

The Organization has the following long-term debt at December 31, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|--|--------------------|--------------------|
| Note Payable, State of Indiana – Common School Fund, payable in semi-annual installments of \$17,757 plus interest, interest accrues at 1%, funds are unsecured. The Organization was granted a two year deferral by the State of Indiana Common School Fund for its final payment, which is due on July 1, 2011. | \$ 17,757 | \$ 35,514 |
| Note Payable, State of Indiana – Common School Fund, payable in semi-annual installments of \$17,471 plus interest, interest accrues at 1%, funds are unsecured. The Organization was granted a two year deferral by the State of Indiana Common School Fund for its final two payments, due on July 1, 2011 and January 1, 2012 | 34,943 | 52,414 |
| Bond Payable, Indiana Finance Authority, payable in annual installments through June 1, 2032 | <u>9,000,000</u> | <u>9,000,000</u> |
| Total Long-Term Debt | <u>\$9,052,700</u> | <u>\$9,087,928</u> |

A summary of maturities for the next five years is as follows:

| <u>Year Ending</u> | <u>Amount</u> |
|--------------------|---------------|
| December 31, 2010 | \$ 260,000 |
| December 31, 2011 | \$ 300,228 |
| December 31, 2012 | \$ 292,472 |
| December 31, 2013 | \$ 285,000 |
| December 31, 2014 | \$ 295,000 |
| Thereafter | \$ 7,620,000 |

Interest expense for the years ending December 31, 2009 and 2008 was \$426,677 and \$300,095, respectively.

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NOTE 8 - DERIVATIVE INSTRUMENTS

The Organization entered into an interest rate swap agreement with JPMorgan Chase in hopes to minimize the effect of the changes in the variable interest rate of its bonds payable. The agreement effectively fixes the Organization's interest rate exposure at 3.75%. The differential interest required to be paid or that will be received is accrued consistent with the terms of the agreement and is recognized in interest expense. Generally accepted accounting principles require that derivative instruments be recognized at fair value as either assets or liabilities in the statement of financial position. Accordingly, the negative value of \$583,675 of the swap agreement at December 31, 2009 is reported as a liability in the statement of financial position. The change in fair value of the derivative instrument from the prior year is reflected as either income or loss on the statement of activities. The Organization's gain from the change in fair value of its derivative instrument was \$595,934 for the year ending December 31, 2009. For the year ended December 31, 2008 the Organization had a loss from the change in fair value of \$845,134.

NOTE 9 - BOND ISSUANCE COSTS

The issuance of bonds involves printing costs, legal and accounting fees, commissions, promotional expenses, and other similar charges. These items represent a deferred charge. The 2008 series bond issue costs of \$143,184 were amortized over the life of the bonds. The amortization for the years ending December 31, 2009 and 2008 was \$5,728 and \$9,068, respectively.

NOTE 10 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined using available market information and valuation methodologies described below. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that the Organization could realize in a current market exchange. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

The carrying values of cash and cash equivalents approximate fair values due to the short-term maturities of these instruments. The carrying value of investments also approximates fair values according to quoted market prices.

The carrying amounts and estimated fair values of the Organization's bond at December 31, 2009 are as follows:

| | <u>Carrying Amount</u> | <u>Fair Value</u> |
|--|----------------------------|-----------------------|
| Indiana Finance Authority Bond Payable | \$9,000,000 | \$5,748,415 |

The fair value of debt was estimated by discounting the future cash out-flows of principal and interest using the interest rate of the bond as of December 31, 2009.

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NOTE 11 - EMPLOYEE BENEFIT PLANS

The Campagna Academy, Inc. has a 401(k) plan for all employees. Employees can choose to defer compensation as contributions to the plan. Contributions to the plan are made for all employees with at least one year of service and who have attained 21 years of age. Contributions are equal to 7% of each employee's total compensation. The Campagna Academy, Inc. certified teachers are required to defer 3% of their compensation to the Indiana State Teachers' Retirement Fund. In addition, the Organization contributes 7.25% of the employees' compensation to the fund. Expenses for the retirement plan contributions were \$191,423 and \$196,499 for the years ended December 31, 2009 and 2008, respectively.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

On January 1, 2008, the Organization had \$83,902 in temporarily restricted net assets. Of this amount, \$63,921 was released in 2009 from expenditures made by the Organization. The Organization received \$4,454 in additional contributions which were temporarily restricted. At December 31, 2009, the Organization had \$24,435 of temporarily restricted net assets.

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS

The Organization has \$50,000 in scholarships that are permanently restricted. This amount did not change in either of the years ended December 31, 2009 and 2008.

NOTE 14 - EQUIPMENT LEASES

The Organization is leasing a postage meter through December 10, 2010. The postage meter requires quarterly lease payments of \$383. The lease expense for the years ended December 31, 2009 and 2008 was \$1,583 and \$1,572, respectively.

Future minimum payments expected under the above lease are as follows:

| <u>Year Ending</u> | <u>Amount</u> |
|--------------------|---------------|
| December 31, 2010 | \$ 1,149 |

The Organization is leasing copiers through June 2014. The copiers require monthly lease payments, plus quarterly overages. The lease expense for the years ended December 31, 2009 and 2008 was \$26,132 and \$4,028, respectively.

Future minimum payments expected under the above lease are as follows:

| <u>Year Ending</u> | <u>Amount</u> |
|--------------------|---------------|
| December 31, 2010 | \$ 24,890 |
| December 31, 2011 | \$ 24,890 |
| December 31, 2012 | \$ 24,890 |
| December 31, 2013 | \$ 24,890 |
| December 31, 2014 | \$ 12,445 |

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NOTE 15 - SUBSEQUENT EVENT

In December 2009, the Indiana Department of Child Services (Indiana DCS) announced significant reimbursement rate reductions for 2010 to the amounts it pays to child welfare service providers and adoptive parents. The Indiana Association of Residential Child Care Agencies (IARCCA) filed a lawsuit in December 2009 on behalf of numerous Indiana child welfare agencies to prevent the rate reductions. On January 20, 2010 a Federal judge granted a preliminary injunction requiring the Indiana DCS to keep rates at 2009 levels. The Indiana DCS is required to revise its process for determining 2010 rates. The Indiana DCS is appealing the preliminary injunction.

NOTE 16 - SUBSEQUENT EVENT

Subsequent events have been evaluated through April 3, 2010, the date the financial statements were available for issuance.