

Collaborative For Children

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2011 and 2010

Independent Auditors' Report

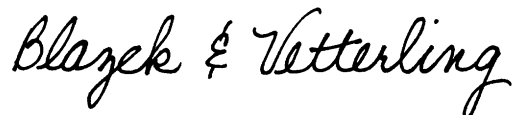
To the Board of Directors of
Collaborative For Children:

We have audited the accompanying statements of financial position of Collaborative For Children as of December 31, 2011 and 2010 and the related statements of activities, of functional expenses, and of cash flows for the years then ended. These financial statements are the responsibility of the management of Collaborative For Children. 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 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 our 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 Collaborative For Children as of December 31, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2012 on our consideration of Collaborative For Children's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



July 17, 2012

Collaborative For Children

Statements of Financial Position as of December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents (<i>Note 2</i>)	\$ 1,959,316	\$ 1,857,541
Certificate of deposit (<i>Note 5</i>)	207,000	207,000
Receivables:		
Government agencies	58,240	325,428
Pledges (<i>Note 3</i>)	167,500	1,150,000
United Way service contracts	4,691	75,595
Other	25,893	
Prepaid expenses and other assets	11,294	19,611
Property, net (<i>Note 4</i>)	<u>58,186</u>	<u>52,132</u>
TOTAL ASSETS	<u>\$ 2,492,120</u>	<u>\$ 3,687,307</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 462,879	\$ 400,245
Note payable (<i>Note 6</i>)	50,180	
Deferred revenue	<u>112,633</u>	<u>10,767</u>
Total liabilities	<u>625,692</u>	<u>411,012</u>
Net assets:		
Unrestricted	491,520	516,339
Temporarily restricted (<i>Note 7</i>)	<u>1,374,908</u>	<u>2,759,956</u>
Total net assets	<u>1,866,428</u>	<u>3,276,295</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,492,120</u>	<u>\$ 3,687,307</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Activities for the year ended December 31, 2011

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Note 3)</i>	\$ 225,406	\$ 1,641,047	\$ 1,866,453
Government grants <i>(Note 8)</i>	3,760,102		3,760,102
United Way service contracts	740,700		740,700
Special events	257,429		257,429
Cost of direct donor benefits	(43,601)		(43,601)
Program service fees	75,933		75,933
Other income	<u>3,687</u>		<u>3,687</u>
Total revenue	5,019,656	1,641,047	6,660,703
Net assets released from restrictions:			
Expenditure for program purposes	2,646,095	(2,646,095)	
Expiration of time restrictions	<u>380,000</u>	<u>(380,000)</u>	
Total	<u>8,045,751</u>	<u>(1,385,048)</u>	<u>6,660,703</u>
EXPENSES:			
Program services:			
Provider Engagement	3,659,141		3,659,141
Community Engagement	1,917,148		1,917,148
Family Engagement	<u>1,218,178</u>		<u>1,218,178</u>
Total program services	6,794,467		6,794,467
Management and general	938,875		938,875
Fundraising	<u>337,228</u>		<u>337,228</u>
Total expenses	<u>8,070,570</u>		<u>8,070,570</u>
CHANGES IN NET ASSETS	(24,819)	(1,385,048)	(1,409,867)
Net assets, beginning of year	<u>516,339</u>	<u>2,759,956</u>	<u>3,276,295</u>
Net assets, end of year	<u>\$ 491,520</u>	<u>\$ 1,374,908</u>	<u>\$ 1,866,428</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Activities for the year ended December 31, 2010

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (Note 3)	\$ 796,504	\$ 2,859,376	\$ 3,655,880
Government grants (Note 8)	6,951,478		6,951,478
United Way service contracts	881,498		881,498
Special events	239,616		239,616
Cost of direct donor benefits	(37,280)		(37,280)
Program service fees	76,568		76,568
Other income	<u>576</u>		<u>576</u>
Total revenue	8,908,960	2,859,376	11,768,336
Net assets released from restrictions:			
Expenditure for program purposes	<u>1,733,654</u>	<u>(1,733,654)</u>	
Total	<u>10,642,614</u>	<u>1,125,722</u>	<u>11,768,336</u>
EXPENSES:			
Program services:			
Provider Engagement	7,210,740		7,210,740
Community Engagement	1,114,181		1,114,181
Family Engagement	<u>893,757</u>		<u>893,757</u>
Total program services	9,218,678		9,218,678
Management and general	876,846		876,846
Fundraising	<u>280,104</u>		<u>280,104</u>
Total expenses	<u>10,375,628</u>		<u>10,375,628</u>
CHANGES IN NET ASSETS	266,986	1,125,722	1,392,708
Net assets, beginning of year	<u>249,353</u>	<u>1,634,234</u>	<u>1,883,587</u>
Net assets, end of year	<u>\$ 516,339</u>	<u>\$ 2,759,956</u>	<u>\$ 3,276,295</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Functional Expenses for the year ended December 31, 2011

<u>EXPENSES</u>	<u>PROVIDER ENGAGEMENT</u>	<u>COMMUNITY ENGAGEMENT</u>	<u>FAMILY ENGAGEMENT</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salaries, related taxes and benefits	\$ 1,311,074	\$ 408,612	\$ 580,380	\$ 752,201	\$ 198,559	\$ 3,250,826
Professional and contract services	340,337	1,403,234	447,524	40,882	66,737	2,298,714
Equipment and incentive grants	1,396,046	3,818	16,776			1,416,640
Occupancy	151,426	45,808	65,969	83,086	21,705	367,994
College tuition, continuing education, and awards to caregivers	223,906		7,479	364		231,749
Conferences, meetings, and workshops	62,537	4,068	5,873	2,335	321	75,134
Travel	52,384	4,291	14,224	1,306	557	72,762
Printing	16,164	13,028	14,143	4,662	2,061	50,058
Office supplies	16,446	4,106	8,711	8,468	3,270	41,001
Staff development	26,533	1,252	940	7,782	793	37,300
Computer technology expense	5,972	2,719	14,481	3,916	9,067	36,155
Depreciation	10,927	3,629	4,599	7,189	1,675	28,019
Internet service fees	9,833	3,155	4,119	6,010	1,416	24,533
Telephone	10,176	2,317	3,179	4,370	822	20,864
Advertising		2,631	3,404	7,899	550	14,484
Postage and shipping	4,529	602	6,372	1,312	1,546	14,361
Interest expense	2,745	822	1,163	1,576	413	6,719
Equipment rental and maintenance	1,495	427	569	901	201	3,593
Other	16,611	12,629	18,273	4,616	27,535	79,664
Total expenses	<u>\$ 3,659,141</u>	<u>\$ 1,917,148</u>	<u>\$ 1,218,178</u>	<u>\$ 938,875</u>	<u>\$ 337,228</u>	<u>\$ 8,070,570</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Functional Expenses for the year ended December 31, 2010

<u>EXPENSES</u>	<u>PROVIDER ENGAGEMENT</u>	<u>COMMUNITY ENGAGEMENT</u>	<u>FAMILY ENGAGEMENT</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salaries, related taxes and benefits	\$ 1,640,386	\$ 335,308	\$ 604,813	\$ 689,735	\$ 193,488	\$ 3,463,730
Professional and contract services	452,793	695,140	43,930	13,204	21,719	1,226,786
Equipment and incentive grants	4,006,645		25,780			4,032,425
Occupancy	201,115	40,741	74,780	92,370	23,762	432,768
College tuition, continuing education, and awards to caregivers	505,343		5,144	159		510,646
Conferences, meetings, and workshops	128,005	5,540	8,125	7,743	466	149,879
Travel	101,283	4,853	15,997	2,505	45	124,683
Printing	20,795	3,255	38,722	3,484	2,763	69,019
Office supplies	28,040	3,491	10,327	8,531	3,144	53,533
Staff development	23,268	2,667	5,339	6,821	299	38,394
Computer technology expense	24,604	2,167	10,185	7,017	8,196	52,169
Depreciation	15,221	3,464	5,704	7,462	1,967	33,818
Internet service fees	10,098	2,105	3,753	4,691	1,234	21,881
Telephone	12,413	1,610	2,931	2,810	530	20,294
Advertising		3,798		7,288	60	11,146
Postage and shipping	5,449	313	21,198	1,853	1,862	30,675
Interest expense	2,745	597	1,169	7,280	334	12,125
Equipment rental and maintenance	3,955	914	1,473	1,716	415	8,473
Other	28,582	8,218	14,387	12,177	19,820	83,184
Total expenses	<u>\$ 7,210,740</u>	<u>\$ 1,114,181</u>	<u>\$ 893,757</u>	<u>\$ 876,846</u>	<u>\$ 280,104</u>	<u>\$ 10,375,628</u>

See accompanying notes to financial statements.

Collaborative For Children

Statements of Cash Flows for the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,409,867)	\$ 1,392,708
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	28,019	33,818
Loss on disposal of property	8,973	
Changes in operating assets and liabilities:		
Receivables	1,294,699	(1,271,062)
Prepaid expenses and other assets	8,317	(7,800)
Accounts payable and accrued expenses	77,782	32,201
Deferred revenue	<u>101,866</u>	<u>(491,807)</u>
Net cash provided (used) by operating activities	<u>109,789</u>	<u>(311,942)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(3,711)</u>	<u>(10,339)</u>
Net cash used by investing activities	<u>(3,711)</u>	<u>(10,339)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on line of credit / note payable	<u>(4,303)</u>	<u>(100,000)</u>
Net cash used by financing activities	<u>(4,303)</u>	<u>(100,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	101,775	(422,281)
Cash and cash equivalents, beginning of year	<u>1,857,541</u>	<u>2,279,822</u>
Cash and cash equivalents, end of year	<u>\$ 1,959,316</u>	<u>\$ 1,857,541</u>
<i>Supplemental disclosure of cash flow information:</i>		
Property additions financed with note payable	\$39,335	
Refinancing of accrued expenses with note payable	\$15,148	

See accompanying notes to financial statements.

Collaborative For Children

Notes to Financial Statements for the years ended December 31, 2011 and 2010

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Collaborative For Children (CFC), located in Houston, Texas, was formed in 2004 through a merger of two non-profit organizations and has more than 24 years of experience in serving the community. CFC works with families and those that deliver educational and other support services to children to positively impact the care and education of young children. CFC works to fulfill its mission of *building a strong educational foundation for young children to succeed in school and life* by focusing its programs and services on the following goal areas:

- **Provider Engagement** programs support and develop child care and early education professionals through one-on-one consulting, training and mentoring for teachers and directors in early care and education centers, scholarships for professional development conferences, and wage enhancement programs to reward teachers for obtaining higher educational credentials.
- **Community Engagement** programs provide partnerships to promote healthy child development and strengthen policy and regulations impacting young children. Early childhood education is promoted as a high priority public policy issue in our region with adequate support necessary to deliver quality programs for parents, children, and teachers.
- **Family Engagement** programs provide families with information, resources and support to launch their children toward academic and life success by providing parent education, printed parenting tips, resource materials, and referrals for early education, after-school programs and children with special needs.

Federal income tax status – CFC is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2). CFC files annual federal information and income returns. CFC is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress. CFC believes it is no longer subject to examinations of returns for tax years ending before December 31, 2008.

Cash equivalents include highly liquid financial instruments with original maturities of three months or less.

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to the present value of their estimated future cash flows. Discounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

Property is reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is provided using the straight-line method over estimated useful lives of 5 years. Additions and improvements that have a cost of more than \$500 are capitalized.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Donated materials and services – Donated materials are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Government grants, service contracts, and program service fees are recognized when the related services are provided. Amounts received but unearned are included in the statement of financial position as deferred revenue.

Equipment and incentive grants are awarded to child care providers for equipment and facilities renovation and expansion. Grants awarded are recognized as expense at their fair value when a commitment is made to a recipient.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2011</u>	<u>2010</u>
Demand deposits	\$ 1,932,065	\$ 1,782,005
Money market mutual funds	<u>27,251</u>	<u>75,536</u>
Total cash and cash equivalents	<u>\$ 1,959,316</u>	<u>\$ 1,857,541</u>

CFC maintains cash for daily operations at several banking institutions. Bank deposits exceed the federally insured limit per depositor per institution. CFC has entered into a collateral agreement with one of its depository institutions to collateralize deposits in excess of the federally-insured limit with U. S. government debt securities with a fair value of approximately \$3,085,000 at December 31, 2011.

NOTE 3 – PLEDGES RECEIVABLE

At December 31, 2011, pledges receivable are to be collected as follows: \$137,500 in 2012 and \$30,000 in 2013. At December 31, 2011, 70% of the pledges receivable are due from three donors. In 2011, four donors contributed 82% of total contributions. In 2010, three donors contributed 91% of total contributions.

NOTE 4 – PROPERTY

Property consists of the following:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 134,892	\$ 199,523
Leasehold improvements	<u>27,414</u>	<u>27,414</u>
Total property, at cost	162,306	226,937
Accumulated depreciation	<u>(104,120)</u>	<u>(174,805)</u>
Property, net	<u>\$ 58,186</u>	<u>\$ 52,132</u>

The cost of property used in operations but not reported on the statement of financial position, because title is held by the federal grantor, was approximately \$17,400 at December 31, 2011 and 2010.

NOTE 5 – LINE OF CREDIT

CFC has a \$400,000 revolving line of credit with a bank that is collateralized by a certificate of deposit with a face value of \$207,000. The line expires in May 2013. Draws on the line bear interest at 2% above the bank's prime lending rate, which was 3.25% at December 31, 2011. There is not an outstanding balance on the line of credit at December 31, 2011.

NOTE 6 – NOTE PAYABLE

Note payable represents a loan from a bank due June 2016 with interest at 10.07%. The note is collateralized by telephone equipment and software.

At December 31, 2011, the note payable is due as follows:

2012	\$ 9,282
2013	10,261
2014	11,342
2015	12,538
2016	<u>6,757</u>
Total note payable	<u>\$ 50,180</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Mental health	\$ 953,466	\$ 1,137,376
Neighborhood Initiative	175,964	955,956
Fund development and strategic planning	106,250	
Early Childhood Education	84,200	1,000
Parent and teacher education	20,000	
Use in future periods	20,000	400,000
Bambi Prison Project	15,028	15,624
Community Engagement	<u> </u>	<u>250,000</u>
Total temporarily restricted net assets	<u>\$ 1,374,908</u>	<u>\$ 2,759,956</u>

NOTE 8 – GOVERNMENT GRANTS

CFC is a party to contracts with federal, state, and local governmental agencies. Should these contracts not be renewed, a replacement for this source of support may not be forthcoming and related expenses would not be incurred. Sources of government grants are as follows:

	<u>2011</u>	<u>2010</u>
U. S. Department of Health and Human Services:		
Child Care Quality Improvement	\$ 3,060,651	\$ 6,702,478
Child Care Mandatory and Matching Funds	610,070	67,432
U. S. Department of Labor:		
National Emergency Grant		(163)
State of Texas	<u>89,381</u>	<u>181,731</u>
Total	<u>\$ 3,760,102</u>	<u>\$ 6,951,478</u>

CFC receives grants from federal and state funding sources that require fulfillment of certain conditions as set forth in the related contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by CFC with the terms of the contracts. Management believes such disallowances, if any, would not be material to CFC's financial position or changes in net assets.

NOTE 9 – EMPLOYEE BENEFIT PLAN

Substantially all employees are eligible to participate in a §403(b) tax deferred annuity plan. Employees may elect to participate upon employment by contributing up to 15% of their salary. After three months of employment, the employee is eligible to receive an employer matching contribution, which is determined annually as a percentage of the employee's base salary. CFC's contribution to this plan totaled approximately \$40,000 and \$48,000 during 2011 and 2010, respectively.

NOTE 10 – COMMITMENTS

CFC leases office space and office equipment under noncancelable operating leases. Future minimum lease payments are payable as follows:

2012	\$ 221,213
2013	2,676
2014	2,676
2015	2,676
2016	<u>1,338</u>
Total	<u>\$ 230,579</u>

Lease expense for office space and equipment was approximately \$298,000 in 2011 and \$330,000 in 2010.

NOTE 11 – SUBSEQUENT EVENTS

In April 2012, CFC entered into a 126-month office space lease agreement commencing September 1, 2012. The lease can be terminated by CFC after 66 months by paying a termination fee. The future minimum lease payments would total approximately \$1.5 million if CFC does not terminate the lease after 66 months.

Management has evaluated subsequent events through July 17, 2012, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.