

Collaborative For Children

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

Collaborative For Children

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2017 and 2016	3
Statement of Activities for the year ended December 31, 2017	4
Statement of Activities for the year ended December 31, 2016	5
Statement of Functional Expenses for the year ended December 31, 2017	6
Statement of Functional Expenses for the year ended December 31, 2016	7
Statements of Cash Flows for the years ended December 31, 2017 and 2016	8
Notes to Financial Statements for the years ended December 31, 2017 and 2016	9

Independent Auditors' Report

To the Board of Directors of
Collaborative For Children:

Report on the Financial Statements

We have audited the accompanying financial statements of Collaborative For Children, which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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 Collaborative For Children as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018 on our consideration of Collaborative For Children'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 solely 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 Collaborative For Children'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 Collaborative For Children's internal control over financial reporting and compliance.

Blazek & Vetterling

June 12, 2018

Collaborative For Children

Statements of Financial Position as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 2,483,108	\$ 848,024
Receivables:		
Government contracts	504,656	549,620
United Way service contracts	32,706	33,405
Other	17,611	11,987
Pledges receivable (Note 2)	425,000	1,449,403
Certificate of deposit (Note 5)	207,970	207,462
Prepaid expenses and other assets	90,025	81,365
Property, net (Note 3)	243,063	144,875
Interest in assets of Greater Houston Community Foundation (Note 4)	<u>302,642</u>	<u>264,213</u>
TOTAL ASSETS	<u>\$ 4,306,781</u>	<u>\$ 3,590,354</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 570,457	\$ 336,399
Accrued payroll expenses	183,761	181,162
Note payable (Note 5)		200,000
Deferred facility rent (Note 11)	<u>111,701</u>	<u>114,152</u>
Total liabilities	<u>865,919</u>	<u>831,713</u>
Net assets:		
Unrestricted	696,540	407,146
Temporarily restricted (Note 6)	2,494,322	2,101,495
Permanently restricted (Note 7)	<u>250,000</u>	<u>250,000</u>
Total net assets	<u>3,440,862</u>	<u>2,758,641</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,306,781</u>	<u>\$ 3,590,354</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 827,266	\$ 2,320,552		\$ 3,147,818
Government contracts <i>(Note 8)</i>	4,487,199			4,487,199
United Way service contracts	941,950			941,950
Program service fees	132,872			132,872
Change in interest in assets of Greater Houston Community Foundation		43,019		43,019
Other income	<u>19,910</u>			<u>19,910</u>
Total revenue	6,409,197	2,363,571		8,772,768
Net assets released from restrictions:				
Expiration of time restrictions	380,000	(380,000)		
Expenditures for program purposes	<u>1,590,744</u>	<u>(1,590,744)</u>		
Total	<u>8,379,941</u>	<u>392,827</u>		<u>8,772,768</u>
EXPENSES:				
Program services:				
Provider Engagement	4,575,271			4,575,271
Family Engagement	1,281,703			1,281,703
Community Engagement	<u>334,459</u>			<u>334,459</u>
Total program services	6,191,433			6,191,433
Management and general	1,555,612			1,555,612
Fundraising	<u>343,502</u>			<u>343,502</u>
Total expenses	<u>8,090,547</u>			<u>8,090,547</u>
CHANGES IN NET ASSETS	289,394	392,827		682,221
Net assets, beginning of year	<u>407,146</u>	<u>2,101,495</u>	<u>\$ 250,000</u>	<u>2,758,641</u>
Net assets, end of year	<u>\$ 696,540</u>	<u>\$ 2,494,322</u>	<u>\$ 250,000</u>	<u>\$ 3,440,862</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Activities for the year ended December 31, 2016

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 1,138,805	\$ 2,307,500		\$ 3,446,305
Government contracts <i>(Note 8)</i>	4,648,227			4,648,227
United Way service contracts	927,187			927,187
Program service fees	97,712			97,712
Change in interest in assets of Greater Houston Community Foundation		14,213		14,213
Other income	<u>6,196</u>			<u>6,196</u>
Total revenue	6,818,127	2,321,713		9,139,840
Net assets released from restrictions:				
Expenditures for program purposes	<u>698,127</u>	<u>(698,127)</u>		
Total	<u>7,516,254</u>	<u>1,623,586</u>		<u>9,139,840</u>
EXPENSES:				
Program services:				
Provider Engagement	4,231,566			4,231,566
Family Engagement	1,178,872			1,178,872
Community Engagement	<u>356,000</u>			<u>356,000</u>
Total program services	5,766,438			5,766,438
Management and general	1,324,798			1,324,798
Fundraising	<u>357,878</u>			<u>357,878</u>
Total expenses	<u>7,449,114</u>			<u>7,449,114</u>
CHANGES IN NET ASSETS	67,140	1,623,586		1,690,726
Net assets, beginning of year	<u>340,006</u>	<u>477,909</u>	<u>\$ 250,000</u>	<u>1,067,915</u>
Net assets, end of year	<u>\$ 407,146</u>	<u>\$ 2,101,495</u>	<u>\$ 250,000</u>	<u>\$ 2,758,641</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Functional Expenses for the year ended December 31, 2017

<u>EXPENSES</u>	<u>PROVIDER ENGAGEMENT</u>	<u>FAMILY ENGAGEMENT</u>	<u>COMMUNITY ENGAGEMENT</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salaries, related taxes and benefits	\$ 2,656,686	\$ 935,949	\$ 238,726	\$ 1,026,352	\$ 259,015	\$ 5,116,728
Equipment and incentive grants	758,263	107,228		377		865,868
Professional and contract services	202,736	21,487	54,619	300,061	9,664	588,567
College tuition, continuing education, and awards to caregivers	442,891			533		443,424
Occupancy	177,039	62,759	16,404	69,339	17,945	343,486
Travel	91,820	31,537	4,993	2,728	428	131,506
Conferences, meetings, and workshops	42,818	35,393	1,225	14,916		94,352
Printing	43,132	12,373	1,511	23,277	1,351	81,644
Computer technology	27,729	20,039	10,293	7,192	13,846	79,099
Depreciation	15,403	14,206	1,281	10,892	3,652	45,434
Telephone	26,247	8,628	977	6,335	1,086	43,273
Staff development	29,764	8,216	501	717	490	39,688
Office supplies	13,182	9,668	717	11,573	1,757	36,897
Internet service fees	17,850	6,413	1,675	7,053	1,820	34,811
Insurance	9,149	4,184	1,089	5,350	1,201	20,973
Postage and shipping	2,998	1,234	49	535	498	5,314
Interest				3,437		3,437
Equipment rental and maintenance	1,007	358	97	164	103	1,729
Other	16,557	2,031	302	64,781	30,646	114,317
Total	<u>\$ 4,575,271</u>	<u>\$ 1,281,703</u>	<u>\$ 334,459</u>	<u>\$ 1,555,612</u>	<u>\$ 343,502</u>	<u>\$ 8,090,547</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Functional Expenses for the year ended December 31, 2016

<u>EXPENSES</u>	<u>PROVIDER ENGAGEMENT</u>	<u>FAMILY ENGAGEMENT</u>	<u>COMMUNITY ENGAGEMENT</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salaries, related taxes and benefits	\$ 2,240,064	\$ 823,822	\$ 233,643	\$ 1,000,282	\$ 272,393	\$ 4,570,204
Equipment and incentive grants	758,396	103,991	2,200		10,236	874,823
Professional and contract services	298,655	60,133	63,786	148,082	3,235	573,891
College tuition, continuing education, and awards to caregivers	431,373	607		89	1,985	434,054
Occupancy	153,184	60,449	18,135	70,060	20,176	322,004
Travel	79,169	32,414	4,069	1,142	136	116,930
Conferences, meetings, and workshops	67,512	6,702	16,503	7,160	2,511	100,388
Printing	31,347	17,094	1,504	12,228	1,325	63,498
Computer technology	29,168	25,185	7,495	6,386	792	69,026
Depreciation	21,772	7,576	2,425	4,401	2,683	38,857
Telephone	16,724	5,093	599	4,269	722	27,407
Staff development	52,628	10,622	384	1,438		65,072
Office supplies	15,279	10,043	1,013	13,102	1,705	41,142
Internet service fees	15,828	5,981	1,924	7,251	1,977	32,961
Insurance	8,889	3,823	1,250	5,795	1,354	21,111
Postage and shipping	3,168	1,582	509	104	430	5,793
Interest	98	34	15	5,149	13	5,309
Equipment rental and maintenance	1,516	557	180	694	196	3,143
Other	6,796	3,164	366	37,166	36,009	83,501
Total	<u>\$ 4,231,566</u>	<u>\$ 1,178,872</u>	<u>\$ 356,000</u>	<u>\$ 1,324,798</u>	<u>\$ 357,878</u>	<u>\$ 7,449,114</u>

See accompanying notes to financial statements.

Collaborative For Children

Statements of Cash Flows for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 682,221	\$ 1,690,726
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	45,434	38,857
Net change in interest in assets of Greater Houston Community Foundation	(43,019)	(14,631)
Changes in operating assets and liabilities:		
Receivables	40,039	(67,831)
Pledges receivable	1,024,403	(1,383,403)
Prepaid expenses and other assets	(8,660)	(42,896)
Accounts payable	234,058	(1,074)
Accrued payroll expenses	2,599	4,347
Deferred facility rent	<u>(2,451)</u>	<u>(2,451)</u>
Net cash provided by operating activities	<u>1,974,624</u>	<u>221,644</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of interest in assets of Greater Houston Community Foundation	4,590	
Purchases of property	(143,622)	(86,194)
Net change in certificate of deposit	<u>(508)</u>	<u>(22)</u>
Net cash used by investing activities	<u>(139,540)</u>	<u>(86,216)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on note payable		200,000
Payments on note payable	<u>(200,000)</u>	<u>(257,041)</u>
Net cash used by financing activities	<u>(200,000)</u>	<u>(57,041)</u>
NET CHANGE IN CASH	1,635,084	78,387
Cash, beginning of year	<u>848,024</u>	<u>769,637</u>
Cash, end of year	<u>\$ 2,483,108</u>	<u>\$ 848,024</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$3,437	\$5,309

See accompanying notes to financial statements.

Collaborative For Children

Notes to Financial Statements for the years ended December 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Collaborative For Children (CFC) has served the Houston community for more than 25 years. CFC works with parents, educators, and local leaders to make sure its region’s children have the learning opportunities they need to succeed – in school and throughout their lives. CFC works to fulfill its mission of improving the quality of early education in Greater Houston 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, scholarships for professional development conferences, and wage enhancement programs to reward teachers for obtaining higher educational credentials.
- **Family Engagement** programs provide families with information, resources and support to launch their children toward academic and life success by providing parent education classes, one-on-one parent coaching, and referrals for early education programs, after-school programs, as well as programs that have received training on meeting the needs of children with different abilities.
- **Community Engagement** programs participate in partnerships to promote healthy child development and strengthen laws and regulations impacting young children. Early childhood education is promoted as a high priority public policy issue in our region which needs the adequate support necessary to deliver quality programs for parents, children, and teachers.

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).

Cash – 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 \$2,302,000 at December 31, 2017.

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, if material.

Certificate of deposit is a non-negotiable, timed bank deposit valued at face value plus accrued interest.

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 for furniture, equipment, software, and leasehold improvements. Additions and improvements that have a cost of more than \$500 are capitalized.

Interest in assets of Greater Houston Community Foundation are reported at fair value. Changes in fair value of the interest of these assets are reported as a change in interest in assets.

Net asset classification – Contributions, investment return, 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.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return of permanently restricted net assets is available to support activities as restricted by the donor.

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 contracts, 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.

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.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. CFC is required to adopt this ASU for the fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – PLEDGES RECEIVABLE AND CONTRIBUTIONS

At December 31, 2017, pledges receivable are expected to be collected as follows:

2018	\$ 225,000
2019	<u>200,000</u>
Total pledges receivable	<u>\$ 425,000</u>

Concentrations – At December 31, 2017, 94% of pledges receivable were due from one donor. At December 31, 2016, 86% of pledges receivable were due from three donors. In 2017, three donors provided 55% of contribution revenue. In 2016, three donors provided 58% of contribution revenue.

NOTE 3 – PROPERTY

Property consists of the following:

	<u>2017</u>	<u>2016</u>
Furniture, equipment and software	\$ 470,287	\$ 326,668
Leasehold improvements	<u>18,464</u>	<u>18,464</u>
Total property, at cost	488,751	345,132
Accumulated depreciation	<u>(245,688)</u>	<u>(200,257)</u>
Property, net	<u>\$ 243,063</u>	<u>\$ 144,875</u>

NOTE 4 – INTEREST IN ASSETS OF GREATER HOUSTON COMMUNITY FOUNDATION

CFC is party to an agreement with the Greater Houston Community Foundation (the Community Foundation) whereby amounts deposited by CFC with the Community Foundation will be invested and held for the benefit of CFC. CFC may request grants from these funds from the Community Foundation at any time and the funds cannot be distributed to any other party without the express permission of CFC. The investments held by the Community Foundation are invested for the benefit of CFC in the Pooled Passive Growth Fund at December 31, 2017 and the Pooled Income Fund at December 31, 2016.

CFC's share of the pooled funds portfolio with the Community Foundation was invested in publicly-traded securities as follows at December 31, 2017:

	<u>2017</u>	<u>2016</u>
Domestic equity index	56%	17%
Foreign equity index	20%	12%
Fixed-income index	19%	68%
Money market mutual funds	<u>5%</u>	<u>3%</u>
Total	<u>100%</u>	<u>100%</u>

The fair value of CFC's investment in the Community Foundation reflects CFC's share of the fair value of the underlying pooled investment portfolio managed by the Community Foundation. CFC's share of changes in the value of the portfolio is reflected as a component of investment return. Investment management and custodial fees allocable to CFC's investments are deducted from CFC's share of investment return of the portfolio.

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Interest in assets of Community Foundation	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 302,642</u>	<u>\$ 302,642</u>

Assets measured at fair value at December 31, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Interest in assets of Community Foundation	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 264,213</u>	<u>\$ 264,213</u>

Fair value is based on valuations provided by the Community Foundation in conjunction with the value of the underlying securities provided by the investment custodian. CFC's investment in the pooled funds is calculated based on the percentage of total shares in the fund held by CFC, applied to the total net asset value of the fund. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while CFC believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

The rollforward of Level 3 investments is as follows:

Beginning balance January 1, 2016	\$ 249,582
Change in interest in assets of Community Foundation	<u>14,631</u>
Balance at December 31, 2016	264,213
Change in interest in assets of Community Foundation	43,019
Distributions from Community Foundation	<u>(4,590)</u>
Balance at December 31, 2017	<u>\$ 302,642</u>

NOTE 5 – NOTE PAYABLE

CFC has a \$550,000 revolving line of credit with a bank that is collateralized by a certificate of deposit with a face value of \$208,000, and by other assets. The line expires on October 31, 2018. Draws on the line bear interest at 0.5% above the bank's prime lending rate (4.50% at December 31, 2017). There is no outstanding balance at December 31, 2017 and \$200,000 on the line of credit at December 31, 2016.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
College Bound from Birth	\$ 1,568,951	\$ 888,966
Hurricane Harvey Relief	708,172	
CFC Strategic Plan	31,000	655,340
Parent and teacher education	96,947	32,484
Scholarships	72,642	14,213
Use in future periods for operations		380,000
Qualified Resource and Referral database		107,745
Other	<u>16,610</u>	<u>22,747</u>
Total temporarily restricted net assets	<u>\$ 2,494,322</u>	<u>\$ 2,101,495</u>

NOTE 7 – ENDOWMENT

CFC's endowment consists of one donor-restricted fund established to support scholarships. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment net assets are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, January 1, 2016	\$ (418)		\$ 250,000	\$ 249,582
Change in interest in assets of Community Foundation	<u>418</u>	<u>\$ 14,213</u>		<u>14,631</u>
Endowment net assets, December 31, 2016	<u>0</u>	<u>14,213</u>	<u>250,000</u>	<u>264,213</u>
Change in interest in assets of Community Foundation		43,019		43,019
Distributions		<u>(4,590)</u>		<u>(4,590)</u>
Endowment net assets, December 31, 2017	<u>\$ 0</u>	<u>\$ 52,642</u>	<u>\$ 250,000</u>	<u>\$ 302,642</u>

CFC’s Board of Directors has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, CFC classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by CFC in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, CFC considers the duration and preservation of the fund and other resources of CFC in making a determination to appropriate or accumulate the donor-restricted endowment fund.

Spending Policies and Investment Return Objectives

CFC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment in such a manner as to preserve and enhance the net asset value. CFC has formed an Endowment Committee, substantially comprised of financial advisory professionals, to provide investment guidance for, and monitor the growth and maintenance of, the endowment fund. Presently, the fund is managed by a community foundation’s investment advisory group with investments being structured to emphasize stable and substantial current income. To satisfy its long-term rate-of-return objectives, CFC relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). See investment allocation in Note 4.

Distributions of up to 4% can be approved on an annual basis based upon the average market value of the investments of the last three years. The Endowment Committee will determine the amount to be distributed annually and the Program Committee will determine use of the funds.

NOTE 8 – GOVERNMENT CONTRACTS

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>2017</u>	<u>2016</u>
U. S. Department of Health and Human Services passed through Houston-Galveston Area Council	\$ 3,749,249	\$ 4,020,590
Local school districts	68,195	347,682
State of Texas	<u>669,755</u>	<u>279,955</u>
Total government contracts	<u>\$ 4,487,199</u>	<u>\$ 4,648,227</u>

CFC has entered into contracts with federal, state, and local governmental funding sources that require fulfillment of certain conditions as set forth in the related agreements 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.

CFC maintains an inventory of equipment provided through government contract funding to Houston area childcare centers totaling approximately \$164,000 at December 31, 2017. If this funding were ceased, the government agency would assume ownership.

NOTE 9 – CONDITIONAL CONTRIBUTION

During 2017, CFC received a conditional contribution of \$1,000,000, the specified purpose of which was for Hurricane Harvey flood relief efforts. The initial \$600,000 of the gift was funded in 2017 and recognized as temporarily restricted contributions in 2017 based on meeting the condition of identifying qualified beneficiaries by the end of the year. The balance of the gift totaling \$400,000 was not recognized in 2017, as the conditions regarding the spending of the first installment, as specified in the grant agreement, had not yet been met by year end. Management recognized these contributions in 2018 when the conditions were met.

NOTE 10 – EMPLOYEE BENEFIT PLAN

Substantially all employees of CFC 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 \$65,000 and \$57,000 during 2017 and 2016, respectively.

NOTE 11 – COMMITMENTS

In 2012, CFC entered into a noncancelable facility rental agreement for a term of approximately ten years. Under the terms of the agreement, CFC received a total of 9 months of rent at no cost, which have been recorded as deferred facility rent and are being amortized over the life of the lease. Future minimum lease payments on the facility lease and equipment leases are payable as follows:

2018	\$ 412,013
2019	423,718
2020	373,227
2021	364,828
2022	364,537
Thereafter	<u>58,123</u>
Total	<u>\$ 1,996,446</u>

Lease expense for facility rental and equipment was approximately \$418,000 in 2017 and \$363,000 in 2016.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 12, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than those identified in Note 9, were required to be disclosed or would have a material impact on reported net assets or changes in net assets.