Collaborative For Children

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2019 and 2018

Collaborative For Children

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Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

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, 2019 and 2018 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, 2019 and 2018 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.

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Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2020 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, 2020

Collaborative For Children

Statements of Financial Position as of December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash	$ 842,578	$ 2,301,208
Contributions and grants receivable	416,076	554,573
Certificates of deposit	1,567,120	1,156,953
Prepaid expenses and other assets	49,046	63,650
Property, net *(Note 4)*	169,447	244,863
Interest in assets of Greater Houston Community Foundation *(Note 5)*	335,448	282,799
TOTAL ASSETS	$ 3,379,715	$ 4,604,046
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 258,062	$ 552,627
Accrued salaries and benefits expenses	183,411	207,423
Refundable advances	295,818	226,161
Notes payable *(Note 6)*	8,889	97,222
Deferred facility rent *(Note 11)*	73,577	95,816
Total liabilities	819,757	1,179,249
Net assets:		
Without donor restrictions	1,150,973	712,450
With donor restrictions *(Notes 7 and 8)*	1,408,985	2,712,347
Total net assets	2,559,958	3,424,797
TOTAL LIABILITIES AND NET ASSETS	$ 3,379,715	$ 4,604,046

See accompanying notes to financial statements.

Collaborative For Children

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants *(Note 9)*		$ 8,775,184	$ 8,775,184
United Way		862,976	862,976
Other	$ 927,156	940,727	1,867,883
Program service fees	162,195		162,195
Change in interest in assets of Greater Houston Community Foundation		61,617	61,617
Other income	43,043		43,043
Total revenue	1,132,394	10,640,504	11,772,898
Net assets released from restrictions:			
Expenditures for program purposes	11,943,866	(11,943,866)	
Total	13,076,260	(1,303,362)	11,772,898
EXPENSES:			
Program services:			
Provider Engagement	9,555,728		9,555,728
Family Engagement	1,416,090		1,416,090
Community Engagement	59,294		59,294
Total program services	11,031,112		11,031,112
Management and general	1,381,495		1,381,495
Fundraising	225,130		225,130
Total expenses	12,637,737		12,637,737
CHANGES IN NET ASSETS	438,523	(1,303,362)	(864,839)
Net assets, beginning of year	712,450	2,712,347	3,424,797
Net assets, end of year	$ 1,150,973	$ 1,408,985	$ 2,559,958

See accompanying notes to financial statements.

Collaborative For Children

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants *(Note 9)*		$ 5,096,921	$ 5,096,921
United Way		993,534	993,534
Other	$ 982,241	5,044,835	6,027,076
Program service fees	153,611		153,611
Change in interest in assets of Greater Houston Community Foundation		(19,843)	(19,843)
Other income	33,270		33,270
Total revenue	1,169,122	11,115,447	12,284,569
Net assets released from restrictions:			
Expenditures for program purposes	11,147,422	(11,147,422)	
Total	12,316,544	(31,975)	12,284,569
EXPENSES:			
Program services:			
Provider Engagement	8,696,042		8,696,042
Family Engagement	1,356,678		1,356,678
Community Engagement	323,020		323,020
Total program services	10,375,740		10,375,740
Management and general	1,638,985		1,638,985
Fundraising	285,909		285,909
Total expenses	12,300,634		12,300,634
CHANGES IN NET ASSETS	15,910	(31,975)	(16,065)
Net assets, beginning of year	696,540	2,744,322	3,440,862
Net assets, end of year	$ 712,450	$ 2,712,347	$ 3,424,797

See accompanying notes to financial statements.

Collaborative For Children

Statement of Functional Expenses for the year ended December 31, 2019

EXPENSES	PROVIDER ENGAGEMENT	FAMILY ENGAGEMENT	COMMUNITY ENGAGEMENT	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries, related taxes and benefits	$ 4,352,663	$ 1,071,110	$ 34,407	$ 997,325	$ 133,782	$ 6,589,287
Equipment and incentive grants for providers	3,284,129	26,530		2,829		3,313,488
Professional and contract services	402,700	18,422	15,207	133,557	33,813	603,699
College tuition, continuing education, and awards to caregivers	488,293	75		173		488,541
Occupancy	224,218	56,720	1,768	53,944	6,872	343,522
Computer technology	213,530	17,427	5,734	18,217	12,930	267,838
Travel	177,901	68,254	107	4,715	158	251,135
Conferences, meetings, and workshops	73,540	39,319	555	26,320	22,926	162,660
Staff development	74,334	20,584	199	3,227	205	98,549
Depreciation	23,756	39,224	191	27,092	4,387	94,650
Office supplies and equipment	61,991	10,511	76	19,016	2,076	93,670
Printing	55,451	26,933	596	9,250	1,431	93,661
Telephone	42,349	9,796	168	7,045	700	60,058
Internet service fees	21,878	5,482	177	5,112	739	33,388
Insurance	11,429	2,727	94	2,637	332	17,219
Postage and shipping	2,298	191	4	1,125	382	4,000
Equipment rental and maintenance	1,289	316	11	1,591	40	3,247
Interest				3,035		3,035
Other	43,979	2,469		65,285	4,357	116,090
Total expenses	$ 9,555,728	$ 1,416,090	$ 59,294	$ 1,381,495	$ 225,130	$ 12,637,737

See accompanying notes to financial statements.

Collaborative For Children

Statement of Functional Expenses for the year ended December 31, 2018

EXPENSES	PROVIDER ENGAGEMENT	FAMILY ENGAGEMENT	COMMUNITY ENGAGEMENT	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL EXPENSES
Salaries, related taxes and benefits	$ 3,398,223	$ 1,001,193	$ 239,104	$ 1,113,409	$ 166,784	$ 5,918,713
Equipment and incentive grants for providers	3,778,401	43,350	8,335	542		3,830,628
Professional and contract services	356,858	22,687	34,421	285,889	26,912	726,767
College tuition, continuing education, and awards to caregivers	389,149		1,575	638		391,362
Occupancy	199,869	59,143	13,744	69,485	9,721	351,962
Computer technology	87,792	22,318	10,455	17,076	12,010	149,651
Travel	107,062	52,570	6,519	5,504	5,346	177,001
Conferences, meetings, and workshops	63,657	45,272	1,810	22,834	2,087	135,660
Staff development	41,171	17,801	968	1,713	3,663	65,316
Depreciation	20,942	34,843	1,460	16,660	4,319	78,224
Office supplies and equipment	95,925	10,797	592	15,358	1,568	124,240
Printing	50,832	23,017	648	9,481	2,190	86,168
Telephone	35,585	11,009	1,049	7,796	744	56,183
Internet service fees	20,058	5,938	1,470	6,988	986	35,440
Insurance	9,624	2,768	669	3,500	452	17,013
Postage and shipping	3,233	992	88	635	585	5,533
Equipment rental and maintenance	1,305	384	102	858	65	2,714
Interest				5,108		5,108
Other	36,356	2,596	11	55,511	48,477	142,951
Total expenses	$ 8,696,042	$ 1,356,678	$ 323,020	$ 1,638,985	$ 285,909	$ 12,300,634

See accompanying notes to financial statements.

Collaborative For Children

Statements of Cash Flows for the years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (864,839)	$ (16,065)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	94,650	78,224
Net change in interest in assets of Greater Houston Community Foundation	(52,649)	19,843
Changes in operating assets and liabilities:		
Contributions and grants receivable	138,497	425,372
Prepaid expenses and other assets	14,604	26,403
Accounts payable	(294,565)	27,159
Accrued salaries and benefits expenses	(24,012)	23,662
Refundable advances	69,657	181,172
Deferred facility rent	(22,239)	(15,885)
Net cash provided (used) by operating activities	(940,896)	749,885
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(19,234)	(80,024)
Net change in certificates of deposit	(410,167)	(948,983)
Net cash used by investing activities	(429,401)	(1,029,007)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on notes payable		390,000
Payments on notes payable	(88,333)	(292,778)
Net cash provided (used) by financing activities	(88,333)	97,222
NET CHANGE IN CASH	(1,458,630)	(181,900)
Cash, beginning of year	2,301,208	2,483,108
Cash, end of year	$ 842,578	$ 2,301,208

Supplemental disclosure of cash flow information:		
Interest paid	$3,035	$5,108

See accompanying notes to financial statements.

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, materials and equipment, 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 concentration – 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 $3,429,000 at December 31, 2019.

Contributions and grants 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. At December 31, 2019, all contributions receivable are due within one year.

Certificates of deposit are non-negotiable, bank time deposits 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 is 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 – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

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 *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before CFC is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. A portion of CFC's revenue is derived from federal, state and private contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when CFC has incurred expenditures in compliance with specific contract or grant provisions. Contributions received before conditions have been met are reported as refundable advances.

CFC received conditional contributions of approximately $6,997,000 that have not been recognized at December 31, 2019 because performance requirements have not occurred and qualifying expenditures have not been incurred. Additionally, at December 31, 2019, CFC has a $313,200 intent to give from a foundation that will be recognized as received.

Donated materials and services – Donated materials are recognized at fair value 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.

Program service fees are primarily derived from training services provided to childcare centers in the Greater Houston area. Revenue is recognized as performance obligations are satisfied, in an amount that reflects the consideration that CFC expects to be entitled to receive in exchange for those services. All of CFC's program fees are derived from performance obligations satisfied over time as services are provided. Payment is due prior to the training sessions. CFC does not provide financing or require collateral. There are no contract assets or accounts receivable resulting from contracts with childcare centers at December 31, 2019, 2018 and 2017. Program service fees collected in advance of the period of services are deferred until performance obligations are met.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs, occupancy costs, depreciation, technology, communications, general supplies, and liability insurance costs are allocated on the basis of estimated time and effort expended.

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 February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. CFC is required to adopt this ASU for fiscal year ending December 31, 2022. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

CFC adopted the amendments of ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* as of and for the year ended December 31, 2019. These amendments have been applied on a retrospective basis effective January 1, 2018. Adoption of this ASU resulted in reclassification of previously reported activities to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

CFC adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This ASU and all subsequently clarifying ASU's replaced most existing revenue recognition guidance in U. S. Generally Accepted Accounting Principles. The ASU also required expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. CFC adopted the new standard effective January 1, 2018, using the full retrospective method. Adoption of this ASU had no impact on total beginning net assets but resulted in additional disclosures.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise the following:

	2019	2018
Financial assets:		
Cash	$ 842,578	$ 2,301,208
Contributions and grants receivable	416,076	554,573
Other accounts receivable	12,631	3,574
Certificates of deposit	1,567,120	1,156,953
Interest in assets of Greater Houston Community Foundation	335,448	282,799
Total financial assets	3,173,853	4,299,107
Less financial assets not available for general expenditure:		
Board-designated cash reserve fund	(289,950)	(200,815)
Restricted by donors for use in future periods or for future projects	(67,967)	(2,082,410)
Donor-restricted endowment funds (less appropriation for fiscal year 2020)	(323,338)	(273,831)
Total financial assets available for general expenditure within one year	$ 2,492,598	$ 1,742,051

For purposes of analyzing resources available to meet general expenditures over a 12-month period, CFC considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities. As part of CFC's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining a significant portion of its assets in cash and certificates of deposit.

The Board of Directors has established a cash reserve fund for operating purposes. The following policy has been adopted for the funding and use of the cash reserve fund: The maximum balance of the operating reserve will be equal to three months of operating overhead (approximately $600,000). The reserve will be replenished annually based on achieving at least $100,000 of annual operating surpluses. Any disbursements from the reserve funds must be approved by the Executive Committee.

CFC has received future awards of government funding totaling approximately $7,000,000 that is expected to be recognized as revenue in the next year.

NOTE 4 – PROPERTY

Property consists of the following:

	2019	2018
Furniture, equipment and software	$ 564,830	$ 545,596
Leasehold improvements	23,178	23,178
Total property, at cost	588,008	568,774
Accumulated depreciation	(418,561)	(323,911)
Property, net	$ 169,447	$ 244,863

The net reported value of property used in operations, but not reported in the statement of financial position because title is held by federal grantors, is approximately $99,000 at December 31, 2019.

NOTE 5 – 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, 2019 and 2018. CFC's share of the pooled funds portfolio with the Community Foundation was invested in publicly-traded securities and estimated percentage is as follows:

	2019	2018
Global equity	80%	72%
Global fixed-income	15%	16%
Cash	5%	12%
Total	100%	100%

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, 2019 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Interest in assets of Community Foundation	$ 0	$ 0	$ 335,448	$ 335,448

Assets measured at fair value at December 31, 2018 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Interest in assets of Community Foundation	$ 0	$ 0	$ 282,799	$ 282,799

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:

Balance at January 1, 2018	$ 302,642
Change in interest in assets of Community Foundation	(19,843)
Balance at December 31, 2018	282,799
Change in interest in assets of Community Foundation	61,617
Distributions	(8,968)
Balance at December 31, 2019	$ 335,448

NOTE 6 – NOTES PAYABLE

CFC has a $450,000 revolving line of credit with a bank that is collateralized by a certificate of deposit with a face value of $200,000, and by other assets. The line expires on December 31, 2020. Draws on the line bear interest at 0.5% above the bank's prime lending rate (5.25% at December 31, 2019). There is no outstanding balance at December 31, 2019 and 2018.

During 2018, CFC entered into a $100,000 term note with a bank. The note is collateralized by certain property and equipment. The note bears interest at 2.75% above the LIBOR rate (4.71% at December 31, 2019). Installment payments of $2,779 plus all accrued but unpaid interest are required commencing December 1, 2018 through October 31, 2021. The outstanding balance of this note at December 31, 2019 and 2018 is $8,889 and $97,222, respectively.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2019	2018
Subject to expenditure for specified purpose:		
Hurricane Harvey Relief	$ 525,936	$ 1,459,319
College Bound from Birth	469,634	906,742
Strategic plan	40,859	
Scholarships	20,000	20,000
Parent and teacher education		45,347
Other	7,108	7,108
Total subject to expenditure for specified purpose	1,063,537	2,438,516
Subject to passage of time for future operating periods	10,000	
Endowments:		
Subject to spending policy and appropriation:		
Maconda Brown O'Conner Scholarship Fund	335,448	273,831
Total net assets with donor restrictions	$ 1,408,985	$ 2,712,347

NOTE 8 – 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 the donor-restricted endowment fund are as follows:

	WITH DONOR RESTRICTIONS		
	ACCUMULATED NET INVESTMENT RETURN	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, December 31, 2017	$ 52,642	$ 250,000	$ 302,642
Change in interest in assets of Community Foundation	(19,843)		(19,843)
Endowment net assets, December 31, 2018	32,799	250,000	282,799
Distributions	(8,968)		(8,968)
Change in interest in assets of Community Foundation	61,617		61,617
Endowment net assets, December 31, 2019	$ 85,448	$ 250,000	$ 335,448

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 perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* 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 long-term capital appreciation.

Distributions of up to 4% can be approved on an annual basis based upon the average net asset 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 9 – GOVERNMENT GRANTS

CFC is a party to contracts with federal and state agencies. Should these awards 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:

	2019	2018
U. S. Department of Health and Human Services passed through Houston-Galveston Area Council	$ 7,921,255	$ 4,295,147
State of Texas	853,929	771,774
City of Houston		30,000
Total government contracts	$ 8,775,184	$ 5,096,921

Government awards require fulfillment of certain conditions as set forth in the 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 agreements. Management believes such disallowances, if any, would not be material to CFC's financial position or changes in net assets.

At December 31, 2019, conditional government grants of approximately $6,324,000 have not been recognized because the conditions on which they depend have not yet been met. Conditions include performance of allowable activities and incurring allowable expenses.

CFC maintains an inventory of equipment provided through government contract funding to Houston area childcare centers totaling approximately $245,000 at December 31, 2019. If this funding were ceased, the government agency could assume ownership.

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 $174,000 and $63,000 during 2019 and 2018, respectively.

NOTE 11 – LEASE 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 at December 31, 2019 are payable as follows:

2020	$ 389,285
2021	370,969
2022	334,149
2023	51,427
Total	$ 1,145,830

Lease expense for facility rental and equipment was approximately $433,000 in 2019 and $444,000 in 2018.

NOTE 12 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. The extent of the impact of COVID-19 on CFC's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on clients, donors, employees, and vendors, all of which are uncertain and cannot be predicted. Therefore, while CFC expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

CFC has pursued and been approved for financial relief under legislation passed by the Federal government through a forgivable loan totaling $203,125. There are no assurances that this loan will be forgiven in total.

Management has evaluated subsequent events through June 12, 2020, 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.
