

Collaborative For Children

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2021 and 2020

Collaborative For Children

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2021 and 2020	3
Statement of Activities for the year ended December 31, 2021	4
Statement of Activities for the year ended December 31, 2020	5
Statement of Functional Expenses for the year ended December 31, 2021	6
Statement of Functional Expenses for the year ended December 31, 2020	7
Statements of Cash Flows for the years ended December 31, 2021 and 2020	8
Notes to Financial Statements for the years ended December 31, 2021 and 2020	9

Independent Auditors' Report

To the Board of Directors of
Collaborative For Children:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Collaborative For Children, which comprise the statements of financial position as of December 31, 2021 and 2020 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.

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, 2021 and 2020 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Collaborative For Children and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Collaborative For Children's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

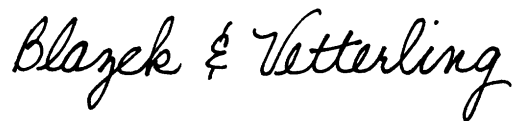
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Collaborative For Children's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Collaborative For Children's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2022 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.



June 21, 2022

Collaborative For Children

Statements of Financial Position as of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 1,098,160	\$ 528,322
Contributions and grants receivable	1,103,518	1,554,963
Certificates of deposit	852,635	1,234,119
Prepaid expenses and other assets	283,112	1,556,376
Property, net (<i>Note 3</i>)	386,010	462,240
Interest in assets of Greater Houston Community Foundation (<i>Note 4</i>)	<u>444,487</u>	<u>382,529</u>
TOTAL ASSETS	<u>\$ 4,167,922</u>	<u>\$ 5,718,549</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 452,765	\$ 200,239
Accrued salaries and benefits expenses	279,806	269,747
Refundable advances:		
Paycheck Protection Program		203,125
Grants and contracts	53,219	430,981
Deferred facility rent (<i>Note 9</i>)	<u>29,099</u>	<u>51,338</u>
Total liabilities	<u>814,889</u>	<u>1,155,430</u>
Commitments (<i>Note 9</i>)		
Net assets:		
Without donor restrictions	1,144,377	2,422,800
With donor restrictions (<i>Notes 5 and 6</i>)	<u>2,208,656</u>	<u>2,140,319</u>
Total net assets	<u>3,353,033</u>	<u>4,563,119</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,167,922</u>	<u>\$ 5,718,549</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 7)		\$ 8,753,927	\$ 8,753,927
United Way		945,994	945,994
Other	\$ 865,819	746,000	1,611,819
Program service fees	178,161		178,161
Change in interest in assets of Greater Houston Community Foundation (Note 4)		61,958	61,958
Other income	<u>201,655</u>	<u> </u>	<u>201,655</u>
Total revenue	1,245,635	10,507,879	11,753,514
Net assets released from restrictions:			
Program expenditures	<u>10,439,542</u>	<u>(10,439,542)</u>	<u> </u>
Total	<u>11,685,177</u>	<u>68,337</u>	<u>11,753,514</u>
EXPENSES:			
Program services:			
Provider Engagement	7,099,211		7,099,211
Community Engagement	1,868,920		1,868,920
Family Engagement	<u>1,375,457</u>		<u>1,375,457</u>
Total program services	<u>10,343,588</u>		<u>10,343,588</u>
Management and general	2,221,200		2,221,200
Fundraising	<u>398,812</u>		<u>398,812</u>
Total expenses	<u>12,963,600</u>		<u>12,963,600</u>
CHANGES IN NET ASSETS	(1,278,423)	68,337	(1,210,086)
Net assets, beginning of year	<u>2,422,800</u>	<u>2,140,319</u>	<u>4,563,119</u>
Net assets, end of year	<u>\$ 1,144,377</u>	<u>\$ 2,208,656</u>	<u>\$ 3,353,033</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 7)		\$ 12,841,729	\$ 12,841,729
United Way		991,488	991,488
Other	\$ 1,293,631	2,121,362	3,414,993
Program service fees	129,585		129,585
Change in interest in assets of Greater Houston			
Community Foundation (Note 4)		47,081	47,081
Other income	<u>11,036</u>	<u></u>	<u>11,036</u>
Total revenue	1,434,252	16,001,660	17,435,912
Net assets released from restrictions:			
Program expenditures	14,886,011	(14,886,011)	
Capital expenditures	<u>384,315</u>	<u>(384,315)</u>	<u></u>
Total	<u>16,704,578</u>	<u>731,334</u>	<u>17,435,912</u>
EXPENSES:			
Program services:			
Provider Engagement	11,950,425		11,950,425
Community Engagement	585,302		585,302
Family Engagement	<u>1,194,825</u>	<u></u>	<u>1,194,825</u>
Total program services	<u>13,730,552</u>	<u></u>	<u>13,730,552</u>
Management and general	1,369,593		1,369,593
Fundraising	<u>332,606</u>	<u></u>	<u>332,606</u>
Total expenses	<u>15,432,751</u>	<u></u>	<u>15,432,751</u>
CHANGES IN NET ASSETS	1,271,827	731,334	2,003,161
Net assets, beginning of year	<u>1,150,973</u>	<u>1,408,985</u>	<u>2,559,958</u>
Net assets, end of year	<u>\$ 2,422,800</u>	<u>\$ 2,140,319</u>	<u>\$ 4,563,119</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Functional Expenses for the year ended December 31, 2021

<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	\$ 4,107,093	\$ 573,693	\$ 1,154,714	\$ 1,388,693	\$ 230,655	\$ 7,454,848
Professional and contract services	1,155,259	1,188,420	2,684	511,913	77,973	2,936,249
Equipment and incentive grants for providers	971,840	10,090	57,997			1,039,927
Occupancy	196,359	28,894	50,699	44,062	11,466	331,480
Computer technology	231,920	12,278	19,241	47,808	12,732	323,979
College tuition, continuing education, and awards to caregivers	256,372			1,797		258,169
Advertising and marketing	6,180	1,383		121,788		129,351
Depreciation	17,073	34,558	10,588	9,699	4,312	76,230
Printing	38,179	1,213	13,581	11,762	1,037	65,772
Telephone	35,400	5,189	8,184	7,989	1,203	57,965
Conferences, meetings, and workshops	6,059		678	8,587	40,736	56,060
Travel	14,008	645	29,315	4,050	153	48,171
Staff development	16,182		12,728	7,676	1,000	37,586
Office supplies and equipment	15,309	8,546	7,371	4,448	702	36,376
Internet service fees	17,511	2,572	4,660	5,974	972	31,689
Insurance	7,455	1,185	1,934	7,330	480	18,384
Postage and shipping	2,270		556	1,781	3,976	8,583
Equipment rental and maintenance	480	68	504	2,507	24	3,583
Other	4,262	186	23	33,336	11,391	49,198
Total expenses	<u>\$ 7,099,211</u>	<u>\$ 1,868,920</u>	<u>\$ 1,375,457</u>	<u>\$ 2,221,200</u>	<u>\$ 398,812</u>	<u>\$ 12,963,600</u>

See accompanying notes to financial statements.

Collaborative For Children

Statement of Functional Expenses for the year ended December 31, 2020

<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	\$ 4,344,137	\$ 298,861	\$ 943,679	\$ 997,287	\$ 182,909	\$ 6,766,873
Professional and contract services	405,784	252,414	24,154	207,591	82,360	972,303
Equipment and incentive grants for providers	1,535,730	701	55,099	140		1,591,670
Occupancy	221,292	16,591	49,581	53,739	9,287	350,490
Computer technology	218,306	2,256	14,260	13,293	13,197	261,312
College tuition, continuing education, and awards to caregivers	4,899,410			1,825	1,000	4,902,235
Advertising and marketing		2,795		18,834	295	21,924
Depreciation	26,375	2,625	40,115	18,668	4,675	92,458
Printing	47,688	483	10,225	5,426	4,942	68,764
Telephone	37,482	1,672	6,401	6,706	989	53,250
Conferences, meetings, and workshops	20,055	189	4,236	2,859	22,537	49,876
Travel	29,124	929	22,154	476	107	52,790
Staff development	122,692	35	7,887	5,521	139	136,274
Office supplies and equipment	12,810	3,163	10,530	5,542	1,232	33,277
Internet service fees	16,122	1,188	3,590	3,885	711	25,496
Insurance	11,564	839	2,384	2,825	521	18,133
Postage and shipping	665	5	113	1,123	1,284	3,190
Equipment rental and maintenance	1,189	515	260	281	326	2,571
Other		41	157	23,572	6,095	29,865
Total expenses	<u>\$ 11,950,425</u>	<u>\$ 585,302</u>	<u>\$ 1,194,825</u>	<u>\$ 1,369,593</u>	<u>\$ 332,606</u>	<u>\$ 15,432,751</u>

See accompanying notes to financial statements.

Collaborative For Children

Statements of Cash Flows for the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (1,210,086)	\$ 2,003,161
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	76,230	92,458
Net change in interest in assets of Greater Houston Community Foundation	(61,958)	(47,081)
Changes in operating assets and liabilities:		
Contributions and grants receivable	451,445	(1,138,887)
Prepaid expenses and other assets	1,273,264	(1,507,330)
Accounts payable	252,526	(57,823)
Accrued salaries and benefits expenses	10,059	86,336
Refundable advances	(580,887)	338,288
Deferred facility rent	<u>(22,239)</u>	<u>(22,239)</u>
Net cash provided (used) by operating activities	<u>188,354</u>	<u>(253,117)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property		(385,251)
Net change in certificates of deposit	<u>381,484</u>	<u>333,001</u>
Net cash provided (used) by investing activities	<u>381,484</u>	<u>(52,250)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable		<u>(8,889)</u>
NET CHANGE IN CASH	569,838	(314,256)
Cash, beginning of year	<u>528,322</u>	<u>842,578</u>
Cash, end of year	<u>\$ 1,098,160</u>	<u>\$ 528,322</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid		\$928

See accompanying notes to financial statements.

Collaborative For Children

Notes to Financial Statements for the years ended December 31, 2021 and 2020

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.
- **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.
- **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.

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 \$1,822,000 at December 31, 2021.

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, 2021, 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 to 6 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.

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 service 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. Program service fees collected in advance of the period of services are deferred until performance obligations are met. There are no contract assets, accounts receivable, or contract liabilities resulting from contracts with childcare centers at December 31, 2021, 2020 and 2019.

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. 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 – 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:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 1,098,160	\$ 528,322
Contributions and grants receivable	1,103,518	1,554,963
Other accounts receivable		3,710
Certificates of deposit	852,635	1,234,119
Interest in assets of Greater Houston Community Foundation	<u>444,487</u>	<u>382,529</u>
Total financial assets	<u>3,498,800</u>	<u>3,703,643</u>
Less financial assets not available for general expenditure:		
Board-designated cash reserve fund	(642,430)	(392,430)
Restricted by donors for use in future periods or for future projects	(60,000)	(109,787)
Endowment funds not expected to be appropriated in the next 12 months	<u>(430,752)</u>	<u>(361,151)</u>
Total financial assets available for general expenditure	<u>\$ 2,365,618</u>	<u>\$ 2,840,275</u>

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, to be general expenditures. 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 \$750,000). The reserve will be replenished annually based on achieving at least \$100,000 of annual operating surpluses. Any disbursements from the reserve fund must be approved by the Executive Committee.

Conditional future contributions

At December 31, 2021, CFC has been awarded conditional government grants of approximately \$10,661,000 that 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.

NOTE 3 – PROPERTY

Property consists of the following:

	<u>2021</u>	<u>2020</u>
Furniture, equipment and software	\$ 566,042	\$ 566,042
Vehicles (mobile classroom)	384,315	384,315
Leasehold improvements	<u>23,178</u>	<u>23,178</u>
Total property, at cost	973,535	973,535
Accumulated depreciation	<u>(587,525)</u>	<u>(511,295)</u>
Property, net	<u>\$ 386,010</u>	<u>\$ 462,240</u>

The value of property used in operations, but not reported in the statement of financial position because title is held by grantors of federal awards, is approximately \$123,000 at December 31, 2021.

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, 2021 and 2020. CFC's share of the pooled investment portfolio with the Community Foundation was invested in publicly-traded securities and the estimated percentage is as follows:

	<u>2021</u>	<u>2020</u>
Global equity	79%	80%
Global fixed-income	17%	15%
Cash	<u>4%</u>	<u>5%</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, 2021 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>444,487</u>	\$ <u>444,487</u>

Assets measured at fair value at December 31, 2020 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>382,529</u>	\$ <u>382,529</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:

Balance at January 1, 2020	\$ 335,448
Change in interest in assets of Community Foundation	<u>47,081</u>
Balance at December 31, 2020	382,529
Change in interest in assets of Community Foundation	<u>61,958</u>
Balance at December 31, 2021	<u>\$ 444,487</u>

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Centers of Excellence	\$ 1,545,242	\$ 1,044,000
Mobile learning unit	135,000	147,746
Hurricane Harvey and COVID-19 Relief	59,912	163,152
DFPS Parents as Teachers	35,000	
College Bound from Birth		342,059
Strategic plan		38,678
Scholarships		20,000
Other		<u>10,390</u>
Total subject to expenditure for specified purpose	<u>1,775,154</u>	<u>1,766,025</u>
Endowments:		
Subject to spending policy and appropriation:		
Maconda Brown O’Conner Scholarship Fund	<u>433,502</u>	<u>374,294</u>
Total net assets with donor restrictions	<u>\$ 2,208,656</u>	<u>\$ 2,140,319</u>

NOTE 6 – 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:

	<u>WITH DONOR RESTRICTIONS</u>		<u>TOTAL</u>
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	
Endowment net assets, December 31, 2019	\$ 85,448	\$ 250,000	\$ 335,448
Distributions	(8,235)		(8,235)
Change in interest in assets of Community Foundation	<u>47,081</u>		<u>47,081</u>
Endowment net assets, December 31, 2020	<u>124,294</u>	<u>250,000</u>	<u>374,294</u>
Distributions	(2,750)		(2,750)
Change in interest in assets of Community Foundation	<u>61,958</u>		<u>61,958</u>
Endowment net assets, December 31, 2021	<u>\$ 183,502</u>	<u>\$ 250,000</u>	<u>\$ 433,502</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 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 7 – 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:

	<u>2021</u>	<u>2020</u>
U. S. Department of Health and Human Services	\$ 7,863,055	\$ 7,501,108
State of Texas	850,872	850,621
City of Houston – COVID-19 relief		3,000,000
U. S. Department of the Treasury	<u>40,000</u>	<u>1,490,000</u>
Total government grants	<u>\$ 8,753,927</u>	<u>\$ 12,841,729</u>

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.

CFC maintains an inventory of equipment provided through government contract funding to Houston area childcare centers totaling approximately \$390,000 at December 31, 2021. The value of this inventory is not recorded in these financial statements. If this funding were ceased, the government agency could assume ownership.

NOTE 8 – 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 \$228,000 and \$191,000 during 2021 and 2020, respectively.

NOTE 9 – COMMITMENTS

Leases

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, 2021 are payable as follows:

2022	\$ 333,561
2023	<u>55,593</u>
Total	<u>\$ 389,154</u>

Lease expense for facility rent and equipment was approximately \$421,000 in 2021 and \$430,000 in 2020.

Line of credit

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, 2022. Draws on the line bear interest at 1% above the bank's prime lending rate (4.25% at December 31, 2021). There is no outstanding balance at December 31, 2021 and 2020.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 21, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
