

**Collaborative For Children**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2016 and 2015

# Collaborative For Children

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## 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, 2016 and 2015 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, 2016 and 2015 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 19, 2017 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 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 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 19, 2017

## Collaborative For Children

Statements of Financial Position as of December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 848,024	\$ 769,637
Receivables:		
Government contracts	549,620	497,156
United Way service contracts	33,405	21,280
Other	11,987	8,745
Pledges receivable (Note 2)	1,449,403	66,000
Certificate of deposit (Note 5)	207,462	207,440
Prepaid expenses and other assets	81,365	38,469
Property, net (Note 3)	144,875	97,538
Interest in assets of Greater Houston Community Foundation (Note 4)	<u>264,213</u>	<u>249,582</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,590,354</u></b>	<b><u>\$ 1,955,847</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 336,399	\$ 337,473
Accrued payroll expenses	181,162	176,815
Note payable (Note 5)	200,000	257,041
Deferred facility rent (Note 10)	<u>114,152</u>	<u>116,603</u>
Total liabilities	<u>831,713</u>	<u>887,932</u>
Net assets:		
Unrestricted	407,146	340,006
Temporarily restricted (Note 6)	2,101,495	477,909
Permanently restricted (Note 7)	<u>250,000</u>	<u>250,000</u>
Total net assets	<u>2,758,641</u>	<u>1,067,915</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,590,354</u></b>	<b><u>\$ 1,955,847</u></b>

*See accompanying notes to financial statements.*

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## Collaborative For Children

Statement of Activities for the year ended December 31, 2016

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY 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
Other income	<u>6,196</u>	<u>14,213</u>		<u>20,409</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>		<u>                    </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.*

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## Collaborative For Children

Statement of Activities for the year ended December 31, 2015

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 974,040	\$ 345,945		\$ 1,319,985
Government contracts <i>(Note 8)</i>	4,479,697			4,479,697
United Way service contracts	893,764			893,764
Program service fees	101,374			101,374
Other income	<u>17,361</u>	<u>(2,137)</u>		<u>15,224</u>
Total revenue	6,466,236	343,808		6,810,044
Net assets released from restrictions:				
Expenditures for program purposes	789,540	(789,540)		
Release of time restrictions	<u>35,000</u>	<u>(35,000)</u>		
Total	<u>7,290,776</u>	<u>(480,732)</u>		<u>6,810,044</u>
EXPENSES:				
Program services:				
Provider Engagement	4,533,021			4,533,021
Family Engagement	838,175			838,175
Community Engagement	<u>440,312</u>			<u>440,312</u>
Total program services	5,811,508			5,811,508
Management and general	1,278,202			1,278,202
Fundraising	<u>454,042</u>			<u>454,042</u>
Total expenses	<u>7,543,752</u>			<u>7,543,752</u>
CHANGES IN NET ASSETS	(252,976)	(480,732)		(733,708)
Net assets, beginning of year	<u>592,982</u>	<u>958,641</u>	<u>\$ 250,000</u>	<u>1,801,623</u>
Net assets, end of year	<u>\$ 340,006</u>	<u>\$ 477,909</u>	<u>\$ 250,000</u>	<u>\$ 1,067,915</u>

*See accompanying notes to financial statements.*

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## 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
Computer technology	29,168	25,185	7,495	6,386	792	69,026
Staff development	52,628	10,622	384	1,438		65,072
Printing	31,347	17,094	1,504	12,228	1,325	63,498
Office supplies	15,279	10,043	1,013	13,102	1,705	41,142
Depreciation	21,772	7,576	2,425	4,401	2,683	38,857
Internet service fees	15,828	5,981	1,924	7,251	1,977	32,961
Telephone	16,724	5,093	599	4,269	722	27,407
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

### Statement of Functional Expenses for the year ended December 31, 2015

<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	\$ 2,017,540	\$ 547,773	\$ 260,099	\$ 932,536	\$ 337,083	\$ 4,095,031
Equipment and incentive grants	1,473,922	100,775			16,703	1,591,400
Professional and contract services	280,231	41,547	109,308	189,250	13,001	633,337
College tuition, continuing education, and awards to caregivers	345,275	1,210			8,000	354,485
Occupancy	142,354	39,208	19,438	66,177	25,351	292,528
Travel	61,080	12,383	11,186	1,487	681	86,817
Conferences, meetings, and workshops	55,236	5,888	2,427	7,850	611	72,012
Computer technology	18,328	41,553	25,851	6,825	8,246	100,803
Staff development	22,972	6,057	1,358	7,262	40	37,689
Printing	15,571	14,910	836	2,988	683	34,988
Office supplies	23,026	4,133	1,900	10,189	2,663	41,911
Depreciation	16,355	3,675	1,774	7,180	2,835	31,819
Internet service fees	16,324	4,384	2,192	7,283	2,817	33,000
Telephone	12,279	2,057	976	4,279	894	20,485
Insurance	8,860	2,737	1,355	6,325	1,758	21,035
Postage and shipping	1,781	2,616	211	631	525	5,764
Interest	727	199	100	2,089	128	3,243
Equipment rental and maintenance	8,344	2,712	1,187	5,438	525	18,206
Other	12,816	4,358	114	20,413	31,498	69,199
Total	<u>\$ 4,533,021</u>	<u>\$ 838,175</u>	<u>\$ 440,312</u>	<u>\$ 1,278,202</u>	<u>\$ 454,042</u>	<u>\$ 7,543,752</u>

*See accompanying notes to financial statements.*

## Collaborative For Children

Statements of Cash Flows for the years ended December 31, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 1,690,726	\$ (733,708)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	38,857	31,819
Changes in operating assets and liabilities:		
Receivables	(67,831)	(165,670)
Pledges receivable	(1,383,403)	497,000
Prepaid expenses and other assets	(42,896)	(506)
Accounts payable	(1,074)	168,896
Accrued payroll expenses	4,347	81,121
Deferred facility rent	<u>(2,451)</u>	<u>9,679</u>
Net cash provided (used) by operating activities	<u>236,275</u>	<u>(111,369)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net change in interest in assets of Greater Houston Community Foundation	(14,631)	2,556
Purchases of property	(86,194)	(64,212)
Net change in certificate of deposit	<u>(22)</u>	<u>(20)</u>
Net cash used by investing activities	<u>(100,847)</u>	<u>(61,676)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances on note payable	200,000	250,000
Payments on note payable	<u>(257,041)</u>	<u>(12,434)</u>
Net cash provided (used) by financing activities	<u>(57,041)</u>	<u>237,566</u>
<b>NET CHANGE IN CASH</b>	<b>78,387</b>	<b>64,521</b>
Cash, beginning of year	<u>769,637</u>	<u>705,116</u>
Cash, end of year	<u>\$ 848,024</u>	<u>\$ 769,637</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$5,309	\$3,243

*See accompanying notes to financial statements.*

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## Collaborative For Children

Notes to Financial Statements for the years ended December 31, 2016 and 2015

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### 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 \$1,800,000 at December 31, 2016.

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 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 other income.

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

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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

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 the first phase of changes 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. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. CFC is reviewing the impact on the presentation and disclosures in the financial statements and a planned date of adoption.

## NOTE 2 – PLEDGES RECEIVABLE AND CONTRIBUTIONS

At December 31, 2016, pledges receivable are due to be collected as follows:

2017	\$ 724,403
2018	325,000
2019	300,000
2020	<u>100,000</u>
Total pledges receivable	<u>\$ 1,449,403</u>

*Concentrations* – At December 31, 2016, 86% of pledges receivable were due from three donors. At December 31, 2015, 91% of pledges receivable were due from two donors. In 2016, three donors provided 58% of contribution revenue. In 2015, two donors provided 45% of contribution revenue.

**NOTE 3 – PROPERTY**

Property consists of the following:

	<u>2016</u>	<u>2015</u>
Furniture, equipment and software	\$ 326,668	\$ 239,947
Leasehold improvements	<u>18,464</u>	<u>18,464</u>
Total property, at cost	345,132	258,411
Accumulated depreciation	<u>(200,257)</u>	<u>(160,873)</u>
Property, net	<u>\$ 144,875</u>	<u>\$ 97,538</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 Income Fund at December 31, 2016 and 2015.

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.

CFC’s share of the pooled portfolio with the Community Foundation was invested in publicly-traded securities as follows at December 31, 2016:

Fixed-income securities	68%
Domestic equity securities	17%
Global equity securities	8%
Foreign equity securities	4%
Money market mutual funds	<u>3%</u>
Total	<u>100%</u>

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, 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>

Assets measured at fair value at December 31, 2015 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>\$ 249,582</u>	<u>\$ 249,582</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 Income Fund 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.

#### 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 \$207,000, and by other assets. The line expires on December 31, 2017. Draws on the line bear interest at 0.5% above the bank's prime lending rate (4.25% at December 31, 2016). There is an outstanding balance of \$200,000 and \$250,000, respectively, on the line of credit at December 31, 2016 and 2015.

Additionally, CFC had an equipment note payable at December 31, 2015 totaling \$7,041. The note payable was fully repaid at December 31, 2016.

#### NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
College Bound from Birth	\$ 888,966	\$ 370,830
CFC Strategic Plan	655,340	
Use in future periods for operations	380,000	30,000
Qualifind Resource and Referral database	107,745	
Parent and teacher education	32,484	52,282
Early Childhood Education in Wharton and Matagorda Counties	18,187	
Scholarships	14,213	
Provider support (equipment improvement and teacher development)		24,797
Other	<u>4,560</u>	
Total temporarily restricted net assets	<u>\$ 2,101,495</u>	<u>\$ 477,909</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, 2015	<u>\$ 0</u>	<u>\$ 2,138</u>	<u>\$ 250,000</u>	<u>\$ 252,138</u>
Change in interest in assets of Community Foundation	<u>(418)</u>	<u>(2,138)</u>		<u>(2,556)</u>
Endowment net assets, December 31, 2015	<u>(418)</u>	<u>0</u>	<u>250,000</u>	<u>249,582</u>
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>

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 who receives 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>2016</u>	<u>2015</u>
U. S. Department of Health and Human Services passed through Houston-Galveston Area Council	\$ 4,020,590	\$ 4,248,620
Local school districts	347,682	180,872
State of Texas	<u>279,955</u>	<u>50,205</u>
Total government contracts	<u>\$ 4,648,227</u>	<u>\$ 4,479,697</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 \$150,000. If this funding were ceased, the government agency would assume ownership.

#### **NOTE 9 – 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 \$57,000 and \$51,000 during 2016 and 2015, respectively.

#### **NOTE 10 – 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:

2017	\$ 351,165
2018	374,840
2019	385,261
2020	341,992
2021	331,761
Thereafter	<u>387,054</u>
Total	<u>\$ 2,172,073</u>

Lease expense for facility rental and equipment was approximately \$363,000 in 2016 and \$313,000 in 2015.

#### **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 19, 2017, 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.