Collaborative For Children

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2018 and 2017

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, 2018 and 2017 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, 2018 and 2017 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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Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, Collaborative For Children adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2019 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 11, 2019

Collaborative For Children

Statements of Financial Position as of December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 2,301,208	$ 2,483,108
Receivables:		
Government contracts	226,804	504,656
United Way service contracts	58,011	32,706
Other	23,332	17,611
Contributions receivable *(Note 10)*	250,000	425,000
Certificates of deposit	1,156,953	207,970
Prepaid expenses and other assets	60,076	90,025
Property, net *(Note 4)*	244,863	243,063
Interest in assets of Greater Houston Community Foundation *(Note 5)*	282,799	302,642
TOTAL ASSETS	$ 4,604,046	$ 4,306,781
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 552,627	$ 525,468
Deferred revenue	226,161	44,989
Accrued salaries and benefits expenses	207,423	183,761
Note payable *(Note 6)*	97,222	
Deferred facility rent *(Note 12)*	95,816	111,701
Total liabilities	1,179,249	865,919
Net assets:		
Without donor restrictions	712,450	696,540
With donor restrictions *(Notes 7 and 8)*	2,712,347	2,744,322
Total net assets	3,424,797	3,440,862
TOTAL LIABILITIES AND NET ASSETS	$ 4,604,046	$ 4,306,781

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 *(Note 10)*	$ 982,241	$ 5,044,835	$ 6,027,076
Government contracts *(Note 9)*	5,096,921		5,096,921
United Way service contracts	993,534		993,534
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	7,259,577	5,024,992	12,284,569
Net assets released from restrictions:			
Expenditures for program purposes	5,056,967	(5,056,967)	
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 Activities for the year ended December 31, 2017

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions *(Note 10)*	$ 827,266	$ 2,320,552	$ 3,147,818
Government contracts *(Note 9)*	4,487,199		4,487,199
United Way service contracts	941,950		941,950
Program service fees	132,872		132,872
Change in interest in assets of Greater Houston Community Foundation		43,019	43,019
Other income	19,910		19,910
Total revenue	6,409,197	2,363,571	8,772,768
Net assets released from restrictions:			
Expiration of time restrictions	380,000	(380,000)	
Expenditures for program purposes	1,590,744	(1,590,744)	
Total	8,379,941	392,827	8,772,768
EXPENSES:			
Program services:			
Provider Engagement	4,575,271		4,575,271
Family Engagement	1,281,703		1,281,703
Community Engagement	334,459		334,459
Total program services	6,191,433		6,191,433
Management and general	1,555,612		1,555,612
Fundraising	343,502		343,502
Total expenses	8,090,547		8,090,547
CHANGES IN NET ASSETS	289,394	392,827	682,221
Net assets, beginning of year	407,146	2,351,495	2,758,641
Net assets, end of year	$ 696,540	$ 2,744,322	$ 3,440,862

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
Travel	107,062	52,570	6,519	5,504	5,346	177,001
Computer technology	87,792	22,318	10,455	17,076	12,010	149,651
Conferences, meetings, and workshops	63,657	45,272	1,810	22,834	2,087	135,660
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
Depreciation	20,942	34,843	1,460	16,660	4,319	78,224
Staff development	41,171	17,801	968	1,713	3,663	65,316
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
Interest				5,108		5,108
Equipment rental and maintenance	1,305	384	102	858	65	2,714
Other	36,356	2,596	11	55,511	48,477	142,951
Total	$ 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

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

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

See accompanying notes to financial statements.

Collaborative For Children

Statements of Cash Flows for the years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (16,065)	$ 682,221
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	78,224	45,434
Net change in interest in assets of Greater Houston Community Foundation	19,843	(43,019)
Changes in operating assets and liabilities:		
Receivables	246,826	40,039
Contributions receivable	175,000	1,024,403
Prepaid expenses and other assets	29,949	(8,660)
Accounts payable	27,159	233,861
Deferred revenue	181,172	197
Accrued salaries and benefits expenses	23,662	2,599
Deferred facility rent	(15,885)	(2,451)
Net cash provided by operating activities	749,885	1,974,624
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of interest in assets of Greater Houston Community Foundation		4,590
Purchases of property	(80,024)	(143,622)
Net change in certificates of deposit	(948,983)	(508)
Net cash used by investing activities	(1,029,007)	(139,540)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on note payable	390,000	
Payments on note payable	(292,778)	(200,000)
Net cash provided (used) by financing activities	97,222	(200,000)
NET CHANGE IN CASH	(181,900)	1,635,084
Cash, beginning of year	2,483,108	848,024
Cash, end of year	$ 2,301,208	$ 2,483,108

Supplemental disclosure of cash flow information:

Interest paid	$5,108	$3,437

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, scholarships for professional development conferences, and wage enhancement programs to reward teachers for obtaining higher educational credentials.
- **Family Engagement** programs provide families with information, resources and support to launch their children toward academic and life success by providing parent education classes, one-on-one parent coaching, and referrals for early education programs, after-school programs, as well as programs that have received training on meeting the needs of children with different abilities.
- **Community Engagement** programs participate in partnerships to promote healthy child development and strengthen laws and regulations impacting young children. Early childhood education is promoted as a high priority public policy issue in our region which needs the adequate support necessary to deliver quality programs for parents, children, and teachers.

Federal income tax status – CFC is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2).

Cash – Bank deposits exceed the federally insured limit per depositor per institution. CFC has entered into a collateral agreement with one of its depository institutions to collateralize deposits in excess of the federally insured limit with U. S. Government debt securities with a fair value of approximately $2,948,000 at December 31, 2018.

Contributions 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, 2018, all contributions receivable were 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. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived

asset, in which case the release occurs over the term of the time restriction. 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 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 when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

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

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. 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 one or more program or supporting activities 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. Printing and postage costs are allocated based on actual usage.

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 pronouncements – In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. CFC is required to apply the amendments in its December 31, 2019 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management has not determined the eventual method of adoption of the ASU or the impact on the financial statements.

In February 2016, the FASB issued 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. The ASU is effective for fiscal periods beginning after December 15, 2019. CFC plans to adopt this ASU for fiscal year ending December 31, 2020. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

CFC adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2018 presentation but had no impact on total net assets or total changes in net assets for 2017.

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, 2018 comprise the following:

Financial assets at December 31, 2018:	
Cash	$ 2,301,208
Government and other contracts receivable	308,147
Contributions receivable	250,000
Certificates of deposit	1,156,953
Interest in assets of Greater Houston Community Foundation	282,799
Total financial assets	4,299,107
Less financial assets not available for general expenditure:	
Board-designated cash reserve fund	(200,815)
Restricted by donors for use in future periods or for future projects	(2,082,410)
Donor-restricted endowment funds	(273,831)
Total financial assets available for general expenditure	$ 1,742,051

For purposes of analyzing resources available to meet general expenditures over a 12-month period, CFC considers all expenditures that are not related to contractual reimbursements, to be general expenditures. These expenditures mainly include general and administrative expenses.

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.

It is management's policy to maintain financial assets, as noted above, on hand to meet 90 days of general operating expenditures, which are, on average, approximately $600,000. 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.

NOTE 4 – PROPERTY

Property consists of the following:

	2018	2017
Furniture, equipment and software	$ 545,596	$ 470,287
Leasehold improvements	23,178	18,464
Total property, at cost	568,774	488,751
Accumulated depreciation	(323,911)	(245,688)
Property, net	$ 244,863	$ 243,063

The net book value of property used in operations, but not reported in the statement of financial position because title is held by federal grantors, is $76,092 at December 31, 2018.

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, 2018 and 2017. CFC's share of the pooled funds portfolio with the Community Foundation was invested in publicly-traded securities and estimated percentage is as follows:

	2018	2017
Domestic equity index	52%	56%
Foreign equity index	20%	20%
Fixed-income index	16%	19%
Money market mutual funds	12%	5%
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, 2018 are as follows:

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

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Interest in assets of Community Foundation	$ 0	$ 0	$ 302,642	$ 302,642

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, 2017	$ 264,213
Change in interest in assets of Community Foundation	43,019
Distributions from Community Foundation	(4,590)
Balance at December 31, 2017	302,642
Change in interest in assets of Community Foundation	(19,843)
Balance at December 31, 2018	$ 282,799

NOTE 6 – NOTE 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 $210,000, and by other assets. The line expires on October 31, 2019. Draws on the line bear interest at 0.5% above the bank's prime lending rate (6% at December 31, 2018). There is no outstanding balance at December 31, 2018 and 2017.

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 (5.25% at December 31, 2018). 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, 2018 is $97,222.

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2018	2017
Subject to expenditure for specified purpose:		
College Bound from Birth	$ 906,742	$ 1,568,951
Hurricane Harvey Relief	1,459,319	708,172
CFC Strategic Plan		31,000
Parent and teacher education	45,347	96,947
Scholarships	20,000	20,000
Other	7,108	16,610
Total subject to expenditure for specified purpose	2,438,516	2,441,680
Endowments:		
Subject to spending policy and appropriation:		
Maconda Brown O'Conner Scholarship Fund	273,831	302,642
Total net assets with donor restrictions	$ 2,712,347	$ 2,744,322

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, 2016	$ 14,213	$ 250,000	$ 264,213
Change in interest in assets of Community Foundation	43,019		43,019
Distributions	(4,590)		(4,590)
Endowment net assets, December 31, 2017	52,642	250,000	302,642
Change in interest in assets of Community Foundation	(19,843)		(19,843)
Distributions	(8,968)		(8,968)
Endowment net assets, December 31, 2018	$ 23,831	$ 250,000	$ 273,831

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 stable and substantial current income.

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

NOTE 9 – 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:

	2018	2017
U. S. Department of Health and Human Services passed through Houston-Galveston Area Council	$ 4,295,147	$ 3,749,249
Local school districts		68,195
City of Houston	30,000	
State of Texas	771,774	669,755
Total government contracts	$ 5,096,921	$ 4,487,199

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 $180,000 at December 31, 2018. If this funding were ceased, the government agency could assume ownership.

NOTE 10 – CONTRIBUTIONS

Conditional Contributions

During 2018 and 2017, CFC received conditional contributions from a foundation totaling $4,689,608, the specified purpose of which was for Hurricane Harvey flood relief efforts. Approximately $3,620,000 and $600,000 of the cumulative gift was funded in 2018 and 2017, respectively, and recognized as contributions with donor restrictions based on meeting the condition of identifying qualified beneficiaries by the end of the year and spending 80% of the previous advances on qualified beneficiaries. The balance of the cumulative gift totaling $470,000 was not recognized in 2018, as the conditions regarding the spending of the advances, as specified in the grant agreement, had not yet been met by year end.

During 2018, CFC also received a conditional contribution of $626,000, the specified purpose of which was for Hurricane Harvey flood relief efforts. The gift was not funded in 2018 and not recognized as contribution revenue as the condition of raising matching funding had not been met by year end.

Additionally during 2018, CFC received a conditional contribution of $300,000, with a specified purpose of strengthening the resiliency of early education. A total of $150,000 of the gift was funded and recognized as a contribution in 2018. The remaining $150,000 of the gift was not funded in 2018 and not recognized as contribution revenue as the condition of sufficient progress towards project goals had not yet been met.

Concentrations

At December 31, 2018, 80% of contributions receivable were due from one donor. At December 31, 2017, 94% of contributions receivable were due from one donor. In 2018, two donors provided 74% of contribution revenue. In 2017, three donors provided 55% of contribution revenue.

NOTE 11 – 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 $63,000 and $65,000 during 2018 and 2017, respectively.

NOTE 12 – FACILITY RENT COMMITMENT

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, 2018 are payable as follows:

2019	$ 442,890
2020	425,654
2021	405,920
2022	370,148
2023	57,607
Total	$ 1,702,219

Lease expense for facility rental and equipment was approximately $444,000 in 2018 and $418,000 in 2017.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 11, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than those disclosed in Note 10, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.