



*REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS*

*FOR*

**CHILD CARE RESOURCE CENTER, INC.**

*June 30, 2017 (With Summarized  
Comparative Information for June 30, 2016)*

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## Report of Independent Auditors

The Audit Committee of the Board of Directors  
Child Care Resource Center, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Child Care Resource Center, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 auditor's 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 Child Care Resource Center, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Prior Year Summarized Comparative Information*

We have previously audited the Child Care Resource Center's June 30, 2016 financial statements and we expressed an unmodified audit opinion on those financial statements in our report dated December 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Los Angeles, California  
December 12, 2017

**Child Care Resource Center, Inc.**  
**Statements of Financial Position**  
**June 30, 2017 and 2016**

	June 30,	
	2017	2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,943,251	\$ 5,729,938
Cash held in reserve	512,915	512,658
Government contracts receivable	15,749,517	10,166,696
Other receivables	21,486	425,332
Investments	2,826,411	2,388,609
Prepaid expenses and other current assets	843,392	776,946
Total current assets	23,896,972	20,000,179
Property and equipment, net	4,652,415	4,477,942
Other assets	417,594	268,594
Total assets	\$ 28,966,981	\$ 24,746,715
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 22,472,819	\$ 19,082,897
Due to funding agencies	8,861	6,070
Reserve funds	512,915	512,658
Deferred revenue and advance payments	441,584	52,126
Deferred rent, current portion	25,738	8,391
Total current liabilities	23,461,917	19,662,142
Deferred rent, net of current portion	225,020	226,696
Total liabilities	23,686,937	19,888,838
Commitments and contingencies (Note 12)		
Net assets		
Unrestricted	5,275,930	4,805,918
Temporarily restricted	4,114	51,959
Total net assets	5,280,044	4,857,877
Total liabilities and net assets	\$ 28,966,981	\$ 24,746,715

**Child Care Resource Center, Inc.**  
**Statement of Activities**  
**Year Ended June 30, 2017**  
**(With Summarized Information for The Year Ended June 30, 2016)**

	Year Ended June 30, 2017			Year Ended June 30, 2016
	Unrestricted	Temporarily Restricted	Total	
Revenue and support				
Grant revenue	\$ 189,463,676	\$ -	\$ 189,463,676	\$ 165,348,806
Fees for services	19,037,317	-	19,037,317	19,262,708
Family fees	4,663,828	-	4,663,828	3,482,591
Contributions	241,929	-	241,929	66,471
In-kind contributions	86,978	-	86,978	76,299
Interest income	39,325	-	39,325	10,833
Investment income	289,538	-	289,538	100,910
Other income	86,869	-	86,869	223,235
Total revenue and support	213,909,460	-	213,909,460	188,571,853
Reclassifications				
Net assets released from restrictions	47,845	(47,845)	-	-
Total revenue and support reclassifications	47,845	(47,845)	-	-
Functional expenses				
Program services	201,916,160	-	201,916,160	178,754,532
General and administrative	11,369,494	-	11,369,494	9,465,112
Fundraising	201,639	-	201,639	91,390
Total functional expenses	213,487,293	-	213,487,293	188,311,034
Change in net assets	470,012	(47,845)	422,167	260,819
Net assets, beginning of year	4,805,918	51,959	4,857,877	4,597,058
Net assets, end of year	\$ 5,275,930	\$ 4,114	\$ 5,280,044	\$ 4,857,877

**Child Care Resource Center, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017**  
**(With Summarized Information for The Year Ended June 30, 2016)**

	Year Ended June 30, 2017			Total	Year Ended June 30, 2016
	Program Services	General and Administrative	Fundraising		
Payments to child care providers	\$ 145,740,353	\$ -	\$ -	\$ 145,740,353	\$ 126,808,268
Payments for contracted services	12,589,576	-	-	12,589,576	12,272,668
Personnel expenses					
Salaries and wages	24,713,564	5,308,074	43,040	30,064,678	28,268,530
Payroll taxes	2,091,383	380,182	2,958	2,474,523	2,328,713
Employee benefits	3,868,097	692,633	6,327	4,567,057	3,944,270
Workers' compensation insurance	704,395	77,725	597	782,717	778,876
Total personnel expenses	<u>31,377,439</u>	<u>6,458,614</u>	<u>52,922</u>	<u>37,888,975</u>	<u>35,320,389</u>
Other expenses					
Advertising	102,789	94,093	8,074	204,956	248,362
Bank fees	50	73,267	533	73,850	54,314
Business insurance	106,354	117,392	-	223,746	214,344
Conferences and staff development	631,957	154,581	11,823	798,361	572,656
Depreciation and amortization expense	1,120,018	-	-	1,120,018	1,099,376
In-kind professional services	86,978	-	-	86,978	76,299
Interest expense	119	1,333	-	1,452	417
Membership dues	55,940	162,009	1,817	219,766	197,485
Office equipment leases and maintenance	207,354	354,469	363	562,186	324,574
Other expenses	348,913	32,927	90	381,930	482,193
Postage and delivery	330,693	94,484	2,572	427,749	441,446
Printing	4,119	19,915	-	24,034	12,616
Professional services	1,140,180	2,187,496	74,704	3,402,380	1,509,040
Rent	3,681,950	524,068	14,008	4,220,026	3,918,894
Repairs and maintenance	703,552	134,201	719	838,472	671,860
Software costs	244,900	516,877	3,685	765,462	655,179
Supplies	1,972,120	259,626	27,496	2,259,242	1,986,571
Telephone	750,288	89,376	626	840,290	656,880
Travel	372,557	42,760	2,152	417,469	369,295
Utilities	347,961	52,006	55	400,022	417,908
Total other expenses	<u>12,208,792</u>	<u>4,910,880</u>	<u>148,717</u>	<u>17,268,389</u>	<u>13,909,709</u>
Total functional expenses	<u>\$ 201,916,160</u>	<u>\$ 11,369,494</u>	<u>\$ 201,639</u>	<u>\$ 213,487,293</u>	<u>\$ 188,311,034</u>

**Child Care Resource Center, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 And 2016**

	<b>Years Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Cash flows from operating activities		
Change in net assets	\$ 422,167	\$ 260,819
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	1,120,018	1,099,376
Net realized gain on investments	(22,097)	(6,376)
Net unrealized gains on investments	(267,441)	(94,534)
Loss on fixed asset disposal	67,535	-
(Increase) decrease in		
Government contracts receivable	(5,582,821)	(1,262,067)
Other receivables	403,846	(330,004)
Prepaid expenses and other current assets	(66,446)	(108,662)
Other assets	(149,000)	(30,204)
Increase (decrease) in		
Accounts payable and accrued liabilities	3,389,922	4,547,561
Due to funding agencies	2,791	(816,330)
Deferred revenue and advance payments	389,458	20,474
Deferred rent	15,671	29,041
Net cash (used in) provided by operating activities	<u>(276,397)</u>	<u>3,309,094</u>
Cash flows from investing activities		
Purchase of property and equipment	(1,366,267)	(1,487,379)
Proceeds from sale of fixed assets	4,241	-
Purchase of investment securities	(374,727)	(2,350,000)
Proceeds from sale of investment securities	226,463	62,301
Increase in cash held in reserve	257	90,588
Net cash used in investing activities	<u>(1,510,033)</u>	<u>(3,684,490)</u>
Cash flows from financing activities		
Proceeds from line of credit	7,300,000	750,000
Payments on line of credit	<u>(7,300,000)</u>	<u>(750,000)</u>
Net cash from financing activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(1,786,430)	(375,396)
Cash and cash equivalents, beginning of year	<u>6,242,596</u>	<u>6,617,992</u>
Cash and cash equivalents, end of year	<u>\$ 4,456,166</u>	<u>\$ 6,242,596</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 1,452</u>	<u>\$ 417</u>

**Note 1 – Nature of Operations**

The Child Care Resource Center, Inc. ("CCRC") is a California Nonprofit Public Benefit Corporation that has been serving children, families and child care providers since 1976. CCRC's vision of healthy and strong children and families living in thriving communities guides its mission to cultivate child, family and community well-being. CCRC manages programs to assist with issues such as finding and selecting child care and vocational training. Children and families benefit from these programs allowing parents to go to work and attend school, contribute to the economy and strengthen their families and the community. CCRC provides services for close to 50,000 children, parents and child care providers each month in Northern Los Angeles County and the entirety of San Bernardino County serving a total area of 25,000 square miles.

CCRC provides the following services:

Book, Toy & Resource Library – CCRC offers four full-service resource libraries that provide thousands of high quality, age appropriate children's books, toys, games, puzzles and play equipment as well as child development books, videos and other resources for parents, child care providers, students and the general community.

Child Care Financial Assistance – CCRC offers a number of different funded programs that help families pay for child care. These programs offer an educational component that is developmentally, culturally, and linguistically appropriate for the children served. Meals and snacks are provided to children, along with parent education, referrals to health and social services for families, and staff development opportunities to employees. These programs are intended to increase parental choice and accommodate the individual needs of the family.

Child Care Workforce Development – CCRC provides a continuum of training programs for child care programs ranging from family, friends and neighbors (license-exempt) who are considering becoming licensed through achieving a college degree for licensed providers. These include:

- California Child Care Initiative Project (CCIP) – The CCIP program is designed to increase the availability of licensed, quality child care. CCRC's trained child development specialists provide technical assistance and training to help child care providers meet California state licensing requirements and grow their businesses.
- Family Child Care Home Education Network (FCCHEN) – The FCCHEN program provides a quality child care experience in a home-based environment. Child care providers participating in this program are required to attend training to support ongoing professional development and receive assessments of both their child care environment and developmental progress of children in their care.

## **Child Care Resource Center, Inc.**

### **Notes to Financial Statements**

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#### **Note 1 – Nature of Operations (continued)**

- Quality Start San Bernardino and Los Angeles Counties (QSSB, QSLA) – CCRC provides training and coaching for center-based and licensed family child care home providers who wish to improve the quality of their care. They learn methods to improve the classroom environment, teacher – child interaction, complete college classes to obtain a teacher assistant or teaching certificate, their Associate or Bachelor's degree, family engagement, and screening of children with special needs.

Child & Family Literacy – CCRC offers several different opportunities for families to participate in literacy activities including Motherread, Jumpstart's Read for the Record, Kaleidoscope and family literacy workshops. In addition, the agency collects and gives away over 100,000 books annually for families in our service area.

Help Finding Child Care – CCRC's Referral Specialists assist parents, at no charge, in locating and selecting the best child care for their family's needs – types of child care, how to identify a quality environment, and referrals to licensed child care providers.

Head Start Birth to 5 – Head Start Birth to 5 is a comprehensive preschool program that works to ensure the healthy development of thousands of local children age birth to 5 years. The program for children birth to 3 years includes a home visiting option and a center-based option. Both include parent education, health, nutrition, mental health services and developmentally appropriate activities for infants and toddlers, including children with special needs. For children age 3 to 4, the program provides the same information and support for parent plus three to six hours a day in a high quality pre-school classroom, as well as medical, dental & mental health, nutrition and parent involvement services.

Early Head Start Child Care Partnership – Under this program, child care providers receive training in order to offer working families the same comprehensive services as the Early Head Start Birth to 5 program. Each child participating in the program receives appropriate activities and comprehensive services such as nutrition, health, and dental evaluations. Child care providers benefit from coaching and mentoring to maintain a high level of care. Families also receive parenting and child development support.

Home Visitation – CCRC's Home Visitation program which began on December 1, 2013, is an initiative directly linked to Welcome Baby which is active in 14 Best Start Communities throughout Los Angeles County. To participate, families must live within the Best Start community boundaries. The program is through Welcome Baby referrals and utilizes the Parents as Teachers curriculum to provide the information, support and encouragement parents needs to help their children achieve optimal development during the crucial early years of life.

Emergency Child Care Project – In partnership with the Department of Children and Family Services in LA County staff work to find child care and support paying for child care for foster / resource parents to take in children under the age of five upon their removal from home.

## Child Care Resource Center, Inc. Notes to Financial Statements

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### Note 1 – Nature of Operations (continued)

Research & Program Evaluation – CCRC's Research & Evaluation staff ensures optimal services for families and children by providing internal and external stakeholders with useful tools and information that can be used for program evaluation, forecasting and strategic planning, contract compliance, and advocacy.

### Note 2 – Summary of Significant Accounting Policies

**Basis of presentation** – The financial statements of CCRC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States and accordingly reflect all significant receivables, payables, and other liabilities. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

**Comparative financial statements** – The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CCRC's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**Reclassification** – Certain prior year account balances have been reclassified to conform to the current year's presentation and have had no significant impact on the financial statements.

**Cash and cash equivalents** – For the purpose of the statement of cash flows, CCRC considers all temporary, short-term, highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

**Cash held in reserve and reserve funds** – Cash held in reserve is cash whose use by CCRC has been limited under contract funding terms and conditions. Included in cash held in reserve is \$512,915 and \$512,658 related to contracts with the California Department of Education ("CDE") at June 30, 2017 and 2016, respectively. The amount with CDE represents cash received but not earned by CCRC. Under CDE's rules, the reserve amount may be used for operations in certain cases. Any unused reserve funds must be returned to CDE upon termination of services under the child development contracts. The reserve balance is reviewed and re-calculated by CDE on an annual basis. The amount in excess of the required reserve balance must be repaid to CDE.

The related liabilities for cash held in reserve for contracts with CDE has been reflected in Reserve Funds in the accompanying statements of financial position at June 30, 2017 and 2016.

## Child Care Resource Center, Inc.

### Notes to Financial Statements

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#### Note 2 – Summary of Significant Accounting Policies (continued)

**Government contracts receivable** – Government contracts receivable consists primarily of monies due from various program funding sources. CCRC has not had issues with collectability of the government contracts receivable and has not recognized an allowance for uncollectable receivables.

**Other receivables** – Other receivables consist primarily of amounts due from various transactions. CCRC carries its receivables at invoiced amounts less allowance for doubtful accounts. CCRC does not accrue interest on its receivables. On a periodic basis, CCRC evaluates its accounts receivable and establishes allowances based on overdue accounts and a history of past write-offs.

**Investments** – Cash and cash equivalents, fixed income funds, equity securities, real estate funds, private equity funds, and commodity funds are reported at their fair value. Interest, dividends, and realized and unrealized gains and losses from investments are included in investment income on the statements of activities.

**Property and equipment** – Property and equipment are carried at cost for items purchased or fair value at the date of the gift for donated items. Repairs and maintenance are charged to expense when incurred. CCRC capitalizes computer equipment and other property items in excess of \$2,000 and expenses amounts below these thresholds. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Computer equipment and software	7 years
Furniture, fixtures, and office equipment	10 years
Vehicles	10 years
Leasehold improvements	Lesser of useful life or remaining term of the lease

**Due to funding agencies** – Due to funding agencies represents amounts received under grant contracts which have not been earned by the end of the grant period and must be repaid to the funding source.

**Deferred revenue and advance payments** – Deferred revenue and advance payments represents amounts received in advance for programs to be initiated in the future, for which services must be provided.

**Deferred rent** – CCRC recognizes rent expense on a straight-line basis over the terms of the leases. The difference between rent expense and the actual cash rent payments is classified as a deferred rent liability. Deferred rent totaled \$250,758 and \$235,087 at June 30, 2017 and 2016, respectively.

## Child Care Resource Center, Inc. Notes to Financial Statements

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### Note 2 – Summary of Significant Accounting Policies (continued)

**Net assets** – The net assets of CCRC are classified into three categories based on the nature of the donor imposed restriction as follows:

- *Unrestricted net assets* include those assets over which CCRC has discretionary control in carrying out the operations of CCRC. CCRC has elected to report, as an increase in unrestricted net assets, any restricted revenue received in the current period for which the restrictions have been met in the current period.
- *Temporarily restricted net assets* include those assets which are subject to a donor restriction and for which the applicable restriction was not met as of the end of the current reporting period.
- *Permanently restricted net assets* include those assets which are subject to a non-expiring donor restriction, such as endowments. As of June 30, 2017 and 2016, CCRC had no permanently restricted net assets.

**Grant revenue** – Grant revenue consists of grants received from CDE, Department of Health & Human Services – Administration for Children & Families ("DHHS – ACF"), Los Angeles County – Department of Public Health ("LADPH") and various governmental funding sources. These sources of support are to be spent for specific purposes. Child care services and general and administrative expenses are funded in part by CDE, DHHS – ACF, LADPH and other grants, which are subject to annual budget negotiations and availability of funds. Consequently, revenues for these transactions are recognized as the expenditures are incurred. Any difference between expenses incurred and the total funds received (not to exceed the grant maximum) is recorded as Government contracts receivable or due to funding agencies.

**Family fees** – Under the Child Care Financial Assistance Program, families may be responsible for paying a portion of their child care referred to as family fees. Family fees are determined based on the family's income and size. CCRC collects family fees on the first day of every month and recognizes when due.

**Fees for services** – CCRC receives support from the Los Angeles County Department of Public Social Services ("DPSS") under the CalWORKs welfare-to-work program. CCRC receives reimbursements for payments to providers and an administrative fee per family served per month under this program. Amounts received under this program are reflected as "fees for services" in the accompanying statements of activities as services are performed.

**Contributions** – CCRC recognizes contributions, including unconditional promises to give, as support in the period received. CCRC reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends and/or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

## **Child Care Resource Center, Inc.**

### **Notes to Financial Statements**

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

**In-kind contributions** – Donated office space, donated equipment, and other donated goods and services are recorded at their estimated fair value as of the date of the donation if the fair value exceeds \$1,000. CCRC received professional services relating to the Head Start Program valued at \$86,978 and \$76,299 for the years ended June 30, 2017 and 2016, respectively.

**Functional expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Fundraising costs of \$201,639 and \$91,390 for the years ended June 30, 2017 and 2016, respectively, were not charged to any child development contracts.

**Income taxes** – CCRC has been designated as tax-exempt under Internal Revenue Code Section 501(c)(3) and is also exempt from state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code and is not generally subject to federal or state income taxes.

However, CCRC is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business and, in the opinion of management, is not material to the basic financial statements taken as a whole. CCRC has determined no uncertain tax benefits or liabilities exist at June 30, 2017 and 2016.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Environmental regulation** – Substantially all of CCRC's facilities are subject to federal, state, and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does CCRC expect such compliance to have any material effect upon the capital expenditures, change in net assets, or financial condition of CCRC. Management believes that its current practices and procedures for the control and disposition of such waste comply with applicable federal and state requirements.

**New accounting pronouncement** – The June 30, 2017 financial statements reflect adoption of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 defines management's responsibility to evaluate whether there is a substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. CCRC adopted this ASU and concluded there is not substantial doubt of its continued operations.

**Note 3 – Concentration of Credit Risk**

Financial instruments which potentially subject CCRC to concentrations of credit risk consist of cash and cash equivalents, cash held in reserve, government contracts receivable, other receivables, and investments. Although cash and cash equivalent balances may from time to time exceed federally insured limits, management believes CCRC is not exposed to any significant credit risk with respect to those deposits. Management believes that CCRC is not exposed to any significant credit risk on government contract and other receivables based on the creditworthiness of the counterparties. Investments are exposed to various risk factors such as market and credit risks. Although the investment value may from time to time change based on the performance of the investments, management believes CCRC is not exposed to any significant credit risk with respect to these investments.

Both governmental and private pay sources have instituted cost-containment measures designed to limit payments made to providers of child care services, and there can be no assurance that future measures designed to limit payments made to providers will not adversely affect reimbursement to CCRC. Furthermore, government reimbursement programs are subject to statutory and regulatory changes, retroactive rate adjustments, administrative rulings and government funding restrictions, all of which could materially decrease the services covered or the rates paid to CCRC for its services.

A majority of CCRC's annual funding, \$213,164,821 or 99.7% and \$184,559,555 or 97.9% in 2017 and 2016, respectively, of total revenues and support is derived from grant agreements with federal and nonfederal agencies. CCRC has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (e.g., the failure to renew grant agreements, withholding of funds or significant decreases to funding) would adversely affect CCRC's ability to finance its ongoing operations.

## Child Care Resource Center, Inc.

### Notes to Financial Statements

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#### Note 4 – Government Contracts Receivable

Government contracts receivable at June 30, 2017 and 2016 are as follows:

	June 30,	
	2017	2016
California Department of Education	\$ 7,369,369	\$ 4,427,830
County of Los Angeles DPSS - CalWORKs Stage I	1,396,756	1,306,610
Department of Health and Human Services - Administration for Children & Families	3,436,709	2,564,178
Los Angeles County Children and Families First Proposition 10 Commission (First 5 LA)	568,551	355,946
Los Angeles County - Department of Public Health	6,096	428,602
San Bernardino County Preschool Service Department - Early Head Start - Child Care Partnership	1,039,178	617,587
Los Angeles County Early Care & Education Workforce Consortium - Gateways for Early Educators Project	97,153	7,306
Children's Bureau - PFF Partnerships for Families AV	-	13,546
Child Care Alliance of Los Angeles - Race to the Top	193,886	280,469
Other funding sources	1,641,819	164,622
	<u>\$ 15,749,517</u>	<u>\$ 10,166,696</u>

Government contracts receivable are all due within one year.

#### Note 5 – Investments

The fair value of investments by major class is as follows at June 30, 2017:

	June 30,	
	2017	2016
Cash and cash equivalents	\$ 21,797	\$ 9,075
Fixed income funds		
Corporate bonds	418,336	565,454
Equity securities		
International common stock	790,666	517,596
Domestic common stock	1,275,815	857,000
Hedged equity funds	135,711	-
Real estate funds	171,224	187,487
Private equity funds	-	236,797
Commodity funds	12,862	15,200
	<u>\$ 2,826,411</u>	<u>\$ 2,388,609</u>

Cash and cash equivalents included in investments consist primarily of money market accounts.

**Child Care Resource Center, Inc.**  
**Notes to Financial Statements**

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**Note 6 – Property and Equipment**

Property and equipment at June 30, 2017 and 2016 is as follows:

	June 30,	
	2017	2016
Leasehold improvements	\$ 1,623,057	\$ 1,340,874
Computer equipment and software	4,107,491	3,798,943
Office equipment	5,302,445	4,910,565
Furniture and fixtures	2,135,826	2,078,227
Vehicles	1,199,870	1,144,562
	14,368,689	13,273,171
Less accumulated depreciation and amortization	(9,716,274)	(8,795,229)
Property and equipment, net	\$ 4,652,415	\$ 4,477,942

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 amounted to \$1,120,018 and \$1,099,376, respectively.

**Note 7 – Line of Credit**

At June 30, 2016, CCRC had a revolving line of credit with East West Bank of \$8,000,000 which expired on March 15, 2017. This agreement was terminated in 2017.

At June 30, 2016, CCRC also had a demand line of credit with U.S. Bank of \$1,300,000 which would expire upon CCRC's demand. This agreement was terminated in 2017.

At June 30, 2017, CCRC had a revolving line of credit with Grandpoint Bank of \$8,000,000 which will expire on June 1, 2019. Borrowings bear an interest equal to the Wall Street Journal prime rate computed based on a 365/360 basis. The effective interest rate at June 30, 2017 was 3.5% per annum. Collateral used to secure the line of credit does not include any property acquired or improved with federal funds from the DHHS – ACF for the benefit of the Head Start Program. At June 30, 2017 and 2016, there were no outstanding balances on the line of credit.

**Note 8 – Fair Value of Financial Instruments**

The carrying amounts of cash, receivables, accounts payable, and accrued expenses approximate fair value due to the short maturity of these instruments.

## **Child Care Resource Center, Inc.**

### **Notes to Financial Statements**

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#### **Note 9 – Fair Value of Measurement of Investments**

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 fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3: Unobservable inputs which are supported by little or no market activity

CCRC invests in various investment securities. Investment securities are exposed to various risk factors such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect investment balances and the amounts reported in the statements of financial position.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position as of June 30, 2017 and 2016, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash and cash equivalents, fixed income funds, equity securities, real estate funds, and commodity funds. There were no Level 2 or Level 3 securities held by CCRC. Private equity funds are recorded at net asset value (“NAV”) of the funds, or its equivalent, fair value based on ownership percentages in the limited partnerships as of and for the year ended June 30 2017 and 2016.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

**Child Care Resource Center, Inc.**  
**Notes to Financial Statements**

**Note 9 – Fair Value of Measurement of Investments (continued)**

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016:

	2017		
	Level 1	Assets Valued at NAV	Total
Cash and cash equivalents	\$ 21,797	\$ -	\$ 21,797
Fixed income funds			
Corporate bonds	418,336	-	418,336
Equity securities			
International common stock	790,666	-	790,666
Domestic common stock	1,275,815	-	1,275,815
Hedged equity funds	135,711	-	135,711
Real estate funds	171,224	-	171,224
Commodity funds	12,862	-	12,862
	<u>\$ 2,826,411</u>	<u>\$ -</u>	<u>\$ 2,826,411</u>

	2016		
	Level 1	Assets Valued at NAV	Total
Cash and cash equivalents	\$ 9,075	\$ -	\$ 9,075
Fixed income funds			
Corporate bonds	565,454	-	565,454
Equity securities			
International common stock	517,596	-	517,596
Domestic common stock	857,000	-	857,000
Real estate funds	187,487	-	187,487
Private equity funds	-	236,797	236,797
Commodity funds	15,200	-	15,200
	<u>\$ 2,151,812</u>	<u>\$ 236,797</u>	<u>\$ 2,388,609</u>

Hedged equity funds are standard mutual funds with same liquidity provisions as other mutual funds in the investment portfolio.

Private equity funds accounted for at NAV, or its equivalent, seek to achieve long-term capital appreciation by investing in a globally diversified portfolio of private equity investments. These private equity funds are redeemable on a quarterly basis with an approximately 60-day redemption notice period. There are no unfunded commitments associated with these funds. The funds are subject to a one-year soft lock with a withdrawal fee of 2%.

## Child Care Resource Center, Inc.

### Notes to Financial Statements

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#### Note 10 – Grant Revenue

Grant revenue for CCRC for the years ended June 30, 2017 and 2016 was received from the following sources:

	June 30,	
	<u>2017</u>	<u>2016</u>
California Department of Education		
CalWORKs Stage II	\$ 72,059,272	\$ 67,060,877
CalWORKs Stage III	41,668,925	38,901,886
Alternative Payments	31,883,279	21,590,472
Family Child Care Home Education Networks	3,020,897	2,553,068
Resource & Referral	1,633,113	1,633,013
Child and Adult Care Food Program	760,016	661,671
Other grants	260,891	147,063
Department of Health and Human Services -		
Administration for Children & Families	30,891,351	27,230,837
San Bernardino County - Preschool Service Department	2,215,086	176,000
Los Angeles County Children and Family First		
Proposition 10 Commission (Frist 5 LA)	1,592,960	1,516,880
Los Angeles County - Department of Public Health		
Emergency Preparedness and Response Services	44,505	155,495
Los Angeles County - Department of Public Health,		
Los Angeles - Reduce Obesity in Child Care Setting	177,193	1,363,177
Child Care Alliance of Los Angeles, Gateways	-	740,000
Other grants	3,256,188	1,618,367
	<u>\$ 189,463,676</u>	<u>\$ 165,348,806</u>

#### Note 11 – Retirement Plans

CCRC maintains two contributory retirement plans for its eligible employees. The plans are a defined contribution pension plan under Internal Revenue Code Section 403(b) that is available to all of its employees with at least ninety days of employment and a defined contribution plan under Section 457(b) that is available to eligible executive management employees. Starting January 1, 2017, CCRC implemented an employer match to the 403(b) plan on 50% of employee contributions up to the first 4% deferred. During the years ended June 30, 2017 and 2016, CCRC made discretionary employer contributions to these plans totaling \$1,037,569 and \$778,132, respectively, and is recorded within "employee benefits" in the accompanying statements of functional expenses.

**Child Care Resource Center, Inc.**  
**Notes to Financial Statements**

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**Note 12 – Commitments and Contingencies**

**Leases** – CCRC leases various equipment and facilities under non-cancelable operating lease agreements expiring at various dates through 2025. The future minimum lease payments required under these lease agreements at June 30, 2017 are as follows:

<u>Years Ending June 30</u>	
2018	\$ 4,155,856
2019	4,138,135
2020	2,425,724
2021	981,748
2022	568,624
Thereafter	<u>696,070</u>
	<u><u>\$ 12,966,157</u></u>

Rent expense for facilities includes common maintenance charges. Total rent expense for the years ended June 30, 2017 and 2016 was \$4,220,026 and \$3,918,894, respectively.

**Note 13 – Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, 2017 and 2016 were available to purchase equipment for the Business Center.

**Note 14 – Subsequent Events**

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are available to be issued. CCRC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. CCRC does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

CCRC purchased a property located at 250 Grand Cypress Avenue, Palmdale, California 93551 for \$5,950,000 on August 31, 2017. CCRC entered into a loan agreement dated August 15, 2017 with Grandpoint Bank and California Enterprise Development Authority (CEDA) to finance the purchase of the property. The Lender (Grandpoint Bank) agreed to loan \$5,355,000 in the form of issuer loan obligation to the Issuer (CEDA) and the Issuer (CEDA) agreed to lend the loan proceeds to the Borrower (CCRC).

## **Child Care Resource Center, Inc.**

### **Notes to Financial Statements**

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#### **Note 14 – Subsequent Events (continued)**

Under this agreement, CCRC will make 180 monthly principal and interest payments of \$38,422 from October 1, 2017 to September 1, 2032 to the Lender (Grandpoint Bank). Borrowings bear a fixed annual interest rate equal to 3.5% from October 1, 2017 to August 31, 2027 and equal to the product of the treasury constant maturity rate plus the applicable spread multiplied by the margin rate factor from September 1, 2027 to September 1, 2032. Treasury constant maturity rate is defined as the average rate for treasury constant maturities of a term of five years for the week prior to or to September 1, 2027, as reported in Release H.15 by the Board of Governors of the Federal Reserve Bank. Margin rate factor means the greater of (a) 1.0 and (b) the product of one minus the Maximum Federal Corporate Tax Rate multiplied by 1.53846. CCRC is also subject to various affirmative and negative covenants including but not limited to: maintaining CCRC's Primary Banking Relationship with the Lender (Grandpoint Bank); maintaining average combined non-interest bearing deposit balances of at least \$5,000,000, measured monthly with the Lender (Grandpoint Bank); and establishing a "Reserve Fund" with a balance no less than the Reserve Fund Requirement of \$892,500.

CCRC has evaluated subsequent events through December 12, 2017, which is the date the financial statements were available to be issued.