



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

CHILD CARE RESOURCE CENTER, INC.

June 30, 2018
(with summarized comparative
information for June 30, 2017)

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Report of Independent Auditors

To 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, 2018, 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, 2018, 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, 2017 financial statements and we expressed an unmodified audit opinion on those financial statements in our report dated December 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss Adams LLP

Los Angeles, California
December 11, 2018

Child Care Resource Center, Inc.
Statements of Financial Position

ASSETS		June 30,	
		<u>2018</u>	<u>2017</u>
Current assets			
Cash and cash equivalents	\$ 10,247,528	\$ 3,943,251	
Cash held in reserve	1,413,925	512,915	
Government contracts receivable	13,213,466	15,749,517	
Other receivables	120,364	21,486	
Investments	1,665,349	2,826,411	
Prepaid expenses and other current assets	<u>647,343</u>	<u>843,392</u>	
Total current assets	27,307,975	23,896,972	
Property and equipment, net	12,515,265	4,652,415	
Other assets	<u>201,911</u>	<u>417,594</u>	
Total assets	<u>\$ 40,025,151</u>	<u>\$ 28,966,981</u>	
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	\$ 24,862,003	\$ 22,472,819	
Due to funding agencies	8,861	8,861	
Reserve funds	580,428	512,915	
Deferred revenue and advance payments	394,420	441,584	
Deferred rent, current portion	16,193	25,738	
Mortgage loan payable, current portion	<u>282,864</u>	<u>-</u>	
Total current liabilities	26,144,769	23,461,917	
Deferred rent, net of current portion	110,612	225,020	
Mortgage loan payable, net of current portion	<u>4,867,124</u>	<u>-</u>	
Total liabilities	<u>31,122,505</u>	<u>23,686,937</u>	
Commitments and contingencies (Note 12)			
Net assets			
Unrestricted	8,902,646	5,275,930	
Temporarily restricted	<u>-</u>	<u>4,114</u>	
Total net assets	<u>8,902,646</u>	<u>5,280,044</u>	
Total liabilities and net assets	<u>\$ 40,025,151</u>	<u>\$ 28,966,981</u>	

Child Care Resource Center, Inc.
Statement of Activities
(Including Summarized Comparative Information for 2017)

	Year Ended June 30, 2018			Year Ended June 30, 2017
	Unrestricted	Temporarily Restricted	Total	
Revenue and support				
Grant revenue	\$ 222,456,895	\$ -	\$ 222,456,895	\$ 189,463,676
Fees for services	20,599,727	-	20,599,727	19,037,317
Family fees	2,862,965	-	2,862,965	4,663,828
Contributions	112,766	-	112,766	241,929
In-kind contributions	141,125	-	141,125	86,978
Interest income	38,320	-	38,320	39,325
Investment income	145,783	-	145,783	289,538
Other income	112,800	-	112,800	86,869
Total revenue and support	246,470,381	-	246,470,381	213,909,460
Reclassifications				
Net assets released from restrictions	4,114	(4,114)	-	-
Total revenue and support reclassifications	4,114	(4,114)	-	-
Functional expenses				
Program services	227,776,364	-	227,776,364	201,916,160
General and administrative	14,950,507	-	14,950,507	11,369,494
Fundraising	120,908	-	120,908	201,639
Total functional expenses	242,847,779	-	242,847,779	213,487,293
Change in net assets	3,626,716	(4,114)	3,622,602	422,167
Net assets, beginning of year	5,275,930	4,114	5,280,044	4,857,877
Net assets, end of year	\$ 8,902,646	\$ -	\$ 8,902,646	\$ 5,280,044

Child Care Resource Center, Inc.
Statement of Functional Expenses
(Including Summarized Comparative Information for 2017)

	Year Ended June 30, 2018			Total	Year Ended June 30, 2017
	Program Services	General and Administrative	Fundraising		
Payments to child care providers	\$ 165,833,657	\$ -	\$ -	\$ 165,833,657	\$ 145,740,353
Payments for contracted services	13,469,974	-	-	13,469,974	12,589,576
Personnel expenses					
Salaries and wages	28,723,825	5,609,072	32,462	34,365,359	30,064,678
Payroll taxes	2,448,235	420,727	2,644	2,871,606	2,474,523
Employee benefits	4,668,493	854,238	4,877	5,527,608	4,567,057
Workers' compensation insurance	1,034,528	88,599	443	1,123,570	782,717
Total personnel expenses	<u>36,875,081</u>	<u>6,972,636</u>	<u>40,426</u>	<u>43,888,143</u>	<u>37,888,975</u>
Other expenses					
Advertising	76,741	214,784	8,008	299,533	204,956
Bank fees	13	58,986	289	59,288	73,850
Business insurance	198,288	36,035	-	234,323	223,746
Conferences and staff development	593,866	241,112	12,122	847,100	798,361
Depreciation and amortization expense	1,278,261	181,806	-	1,460,067	1,120,018
In-kind professional services	141,125	-	-	141,125	86,978
Interest expense	4,167	140,806	-	144,973	1,452
Membership dues	57,759	148,893	-	206,652	219,766
Office equipment leases and maintenance	29,787	514,728	-	544,515	562,186
Other expenses	380,176	98,762	1	478,939	381,930
Postage and delivery	251,603	97,158	2,369	351,130	427,749
Printing	14,718	28,998	-	43,716	24,034
Professional services	793,741	2,958,366	2,670	3,754,777	3,402,380
Rent	3,159,636	704,739	10,747	3,875,122	4,220,026
Repairs and maintenance	673,705	195,141	7	868,853	838,472
Software costs	412,976	871,475	1,312	1,285,763	765,462
Supplies	2,116,639	1,099,651	41,168	3,257,458	2,259,242
Telephone	666,365	240,612	49	907,026	840,290
Travel	396,914	55,583	1,740	454,237	417,469
Utilities	351,172	90,236	-	441,408	400,022
Total other expenses	<u>11,597,652</u>	<u>7,977,871</u>	<u>80,482</u>	<u>19,656,005</u>	<u>17,268,389</u>
Total functional expenses	<u>\$ 227,776,364</u>	<u>\$ 14,950,507</u>	<u>\$ 120,908</u>	<u>\$ 242,847,779</u>	<u>\$ 213,487,293</u>

Child Care Resource Center, Inc.
Statements of Cash Flows

	Years Ended June 30,	
	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 3,622,602	\$ 422,167
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	1,460,067	1,120,018
Net realized gain on investments	(199,205)	(22,097)
Net unrealized losses (gains) on investments	53,422	(267,441)
Loss on disposal of property and equipment	104,783	67,535
(Increase) decrease in		
Government contracts receivable	2,536,051	(5,582,821)
Other receivables	(98,878)	403,846
Prepaid expenses and other current assets	196,049	(66,446)
Other assets	215,683	(149,000)
Increase (decrease) in		
Accounts payable and accrued liabilities	2,389,184	3,389,922
Due to funding agencies	-	2,791
Deferred revenue and advance payments	(47,164)	389,458
Deferred rent	(123,953)	15,671
Net cash provided by (used in) operating activities	<u>10,108,641</u>	<u>(276,397)</u>
Cash flows from investing activities		
Purchase of property and equipment	(9,437,500)	(1,366,267)
Proceeds from sale of property and equipment	9,800	4,241
Purchase of investment securities	(263,723)	(374,727)
Proceeds from sale of investment securities	1,570,568	226,463
Increase in funds held in reserve	67,513	257
Net cash used in investing activities	<u>(8,053,342)</u>	<u>(1,510,033)</u>
Cash flows from financing activities		
Proceeds from line of credit	8,000,000	7,300,000
Payments on line of credit	(8,000,000)	(7,300,000)
Proceeds from mortgage loan payable	5,355,000	-
Payments on mortgage loan payable	(205,012)	-
Net cash provided by financing activities	<u>5,149,988</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents and cash held in reserve	7,205,287	(1,786,430)
Cash, cash equivalents and cash held in reserve, beginning of year	<u>4,456,166</u>	<u>6,242,596</u>
Cash, cash equivalents and cash held in reserve, end of year	<u>\$ 11,661,453</u>	<u>\$ 4,456,166</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 144,973</u>	<u>\$ 1,452</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.

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 Care Resource Center, Inc.

Notes to Financial Statements

Note 1 – Nature of Operations (continued)

Child & Family Literacy – CCRC offers several different opportunities for families to participate in literacy activities including Motherhead, 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 is an initiative directly linked to Welcome Baby, a voluntary program funded by First 5 Los Angeles, that provides hospital and home-based assistance to pregnant and post-partum women. To participate, families must live within the boundaries of the 14 Los Angeles communities supported by First 5 Los Angeles' Best Start initiative. CCRC's Home Visitation program utilizes the Parents as Teachers curriculum to provide information, support and encouragement that parents need to help their children achieve optimal years early in life.

Emergency Child Care Project – In partnership with the County of Los Angeles Department of Children and Family Services, CCRC assists with the identification of and funding paid to foster/resource parents that are able to take in children under the age of five that have been removed from their home in emergency situations.

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.

Child Care Resource Center, Inc.
Notes to Financial Statements

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 of America and accordingly reflect all significant receivables, payables, and other liabilities. The significant accounting policies followed by CCRC 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, 2017, from which the summarized information was derived.

Cash and cash equivalents and cash held in reserve and reserve funds – 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.

The following table provides a reconciliation of cash, cash equivalents, and cash held in reserve reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows:

	June 30,	
	2018	2017
Cash and cash equivalents	\$ 10,247,528	\$ 3,943,251
Cash held in reserve	1,413,925	512,915
Total cash, cash equivalents and cash held in reserve as presented on the statements of cash flows	\$ 11,661,453	\$ 4,456,166

Cash held in reserve and reserve funds relates to deposits required to be separately held to satisfy certain terms of CCRC’s mortgage loan payable and to satisfy the requirements of certain grant contracts with the California Department of Education (“CDE”).

Cash held in reserve related to the mortgage loan payable at June 30, 2018, was \$900,417 which exceeded the amount required by the loan. No reserves were held at June 30, 2017.

Cash held in reserve related to contracts with the CDE at June 30, 2018 and 2017, was \$513,508 and \$512,915, 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.

Child Care Resource Center, Inc.

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2018 and 2017.

Government contracts receivable – Government contracts receivable consists of reimbursements due from various program funding sources for services performed prior to year end. CCRC has not experienced losses from past uncollected government contracts receivable and therefore has not recognized an allowance for uncollectable receivables at June 30, 2018 and 2017.

Other receivables – Other receivables consist 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. There were no allowances recorded for the years ended June 30, 2018 and 2017.

Investments – Cash and cash equivalents, fixed income funds, equity securities, real estate 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
Building	30 years
Building improvements	5 -15 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 \$126,805 and \$250,758 at June 30, 2018 and 2017, respectively.

Child Care Resource Center, Inc. Notes to Financial Statements

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, 2018 and 2017, 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.

Fees for service – 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.

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.

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

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 \$141,125 and \$86,978 for the years ended June 30, 2018 and 2017, 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 \$120,908 and \$201,639 for the years ended June 30, 2018 and 2017, 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. CCRC files an exempt organization return in the U.S. federal jurisdiction and the state of California.

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 financial statements. CCRC has determined no uncertain tax benefits or liabilities exist at June 30, 2018 and 2017.

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.

Recently adopted accounting pronouncements – In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. This ASU is intended to improve the recognition and measurement of financial instruments. This ASU eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the statements of financial position. CCRC has adopted ASU 2016-01 as of and for the year ended June 30, 2018, and applied it to all years presented.

Note 2 – Summary of Significant Accounting Policies (continued)

In November 2016 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18 *Statement of Cash Flows (Topic 230)*. This ASU intended to improve consistency in presenting changes in restricted cash and cash equivalents on the statements of cash flows. CCRC adopted ASU 2016-18 as of and for the year ended June 30, 2018, and has applied it for all years presented.

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, \$245,919,588 or 99.8% and \$213,164,821 or 99.7% in 2018 and 2017, respectively, of total revenue 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

Note 4 – Government Contracts Receivable

Government contracts receivable at June 30, 2018 and 2017, are as follows:

	June 30,	
	2018	2017
California Department of Education	\$ 6,775,111	\$ 7,369,369
County of Los Angeles DPSS - CalWORKs Stage I	480,990	1,396,756
Department of Health and Human Services - Administration for Children & Families	2,158,875	3,436,709
Los Angeles County Children and Families First Proposition 10 Commission (First 5 LA)	1,660,433	568,551
Los Angeles County - Department of Public Health	49,115	6,096
San Bernardino County Preschool Service Department - Early Head Start - Child Care Partnership	843,000	1,039,178
Los Angeles County Early Care & Education Workforce Consortium - Gateways for Early Educators Project	94,817	97,153
Children's Bureau - PFF Partnerships for Families AV	-	-
Child Care Alliance of Los Angeles - Race to the Top	240,875	193,886
Other funding sources	910,250	1,641,819
	<u>\$ 13,213,466</u>	<u>\$ 15,749,517</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, 2018:

	June 30,	
	2018	2017
Cash and cash equivalents	\$ 1,527	\$ 21,797
Fixed income funds		
Corporate bonds	-	418,336
Equity securities		
International common stock	510,605	790,666
Domestic common stock	1,065,476	1,275,815
Hedged equity funds	87,741	135,711
Real estate funds	-	171,224
Commodity funds	-	12,862
	<u>\$ 1,665,349</u>	<u>\$ 2,826,411</u>

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

Child Care Resource Center, Inc.
Notes to Financial Statements

Note 6 – Property and Equipment

Property and equipment at June 30, 2018 and 2017, is as follows:

	June 30,	
	2018	2017
Leasehold improvements	\$ 2,755,468	\$ 1,623,057
Building improvements	200,707	-
Computer equipment and software	4,794,590	4,107,491
Office equipment	6,295,961	5,302,445
Furniture and fixtures	2,203,557	2,135,826
Vehicles	1,463,216	1,199,870
Building	5,350,000	-
	<u>23,063,499</u>	<u>14,368,689</u>
Less accumulated depreciation and amortization	<u>(11,148,234)</u>	<u>(9,716,274)</u>
Depreciable property and equipment, net	11,915,265	4,652,415
Land	<u>600,000</u>	<u>-</u>
Total property and equipment, net	<u>\$ 12,515,265</u>	<u>\$ 4,652,415</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017, amounted to \$1,460,067 and \$1,120,018, respectively.

Note 7 – Debt

At June 30, 2017, CCRC had a revolving line of credit with Grandpoint Bank of \$8,000,000 with an original maturity date of June 1, 2019. On June 5, 2018, the maximum borrowing allowed on the line of credit increased to \$15,000,000 with an original maturity date of October 15, 2018, that was subsequently extended to October 15, 2020. Borrowings bear an interest rate equal to the Wall Street Journal prime rate computed based on a 365/360 basis. The effective interest rate at June 30, 2018, was 4.75% 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, 2018 and 2017, there were no outstanding balances on the line of credit.

On August 15, 2017, CCRC entered into a tax-exempt mortgage loan payable with Grandpoint Bank as issued by the California Enterprise Development Authority (CEDA) in the amount \$5,355,000 to acquire land and a building located in Palmdale, California.

Child Care Resource Center, Inc.

Notes to Financial Statements

Note 7 – Debt (continued)

CCRC will make monthly principal and interest payments of \$38,422 from October 1, 2017 to September 1, 2032. The mortgage loan payable bears a fixed annual interest rate equal to 3.5% from October 1, 2017 to August 31, 2027, and will be adjusted thereafter based on the five-year treasury maturity rate as set by the Federal Reserve Bank plus 2.5% from September 1, 2027 to September 1, 2032. CCRC is also subject to various affirmative and negative covenants including but not limited to: maintaining average combined non-interest bearing deposit balances of at least \$5,000,000, measured monthly; and establishing a “Reserve Fund” with a balance no less than the Reserve Fund Requirement of \$892,500. The cash held in reserve for this requirement has been reflected in cash held in reserve in the accompanying statements of financial position at June 30, 2018 and 2017. The loan is secured by the acquired property as well as reserves held with Grandpoint Bank.

Scheduled payments of principal on the mortgage loan for the future years are as follows:

<u>Years Ending June 30,</u>	
2019	\$ 282,864
2020	292,608
2021	303,626
2022	314,572
2023	325,918
Thereafter	<u>3,630,400</u>
	<u>\$ 5,149,988</u>

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.

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.

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

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, 2018 and 2017, 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.

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, 2018 and 2017:

	2018	
	<u>Level 1</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,527	\$ 1,527
Equity securities		
International common stock	510,605	510,605
Domestic common stock	1,065,476	1,065,476
Hedged equity funds	<u>87,741</u>	<u>87,741</u>
Total	<u>\$ 1,665,349</u>	<u>\$ 1,665,349</u>
	2017	
	<u>Level 1</u>	<u>Total</u>
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	<u>12,862</u>	<u>12,862</u>
Total	<u>\$ 2,826,411</u>	<u>\$ 2,826,411</u>

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

Child Care Resource Center, Inc.
Notes to Financial Statements

Note 10 – Grant Revenue

Grant revenue recognized for the years ended June 30, 2018 and 2017, was received from the following sources:

	Years Ended June 30,	
	2018	2017
California Department of Education		
CalWORKs Stage II	\$ 89,752,511	\$ 72,059,272
CalWORKs Stage III	53,769,098	41,668,925
Alternative Payments	28,741,072	31,883,279
Family Child Care Home Education Networks	3,084,361	3,020,897
Resource & Referral	1,617,710	1,633,113
Child and Adult Care Food Program	778,015	760,016
California State Preschool Program	332,777	1,866
Other grants (individually \$250,000 or less)	501,467	260,891
Department of Health and Human Services –		
Administration for Children & Families	34,081,370	30,889,485
Office of San Bernardino County Superintendent of Schools	2,586,035	787,040
San Bernardino County – Preschool Service Department	1,746,618	2,215,086
San Bernardino County Children and Families Commission	1,649,646	1,060,360
Los Angeles County Children and Family First		
Proposition 10 Commission (Frist 5 LA)	2,008,078	1,662,960
Child Care Alliance of Los Angeles		
Quality Start Los Angeles – California State Preschool Program	379,093	324,515
Community Partners	350,000	-
Other grants (individually \$250,000 or less)	1,079,044	1,235,971
	<u>\$ 222,456,895</u>	<u>\$ 189,463,676</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 based on 50% of employee contributions up to the first 4% deferred. During the years ended June 30, 2018 and 2017, CCRC made discretionary employer contributions to these plans totaling \$1,266,692 and \$1,037,569, respectively, and is recorded within "employee benefits" in the accompanying statements of functional expenses.

Child Care Resource Center, Inc.

Notes to Financial Statements

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, 2018, are as follows:

Years Ending June 30,

2019	\$ 4,117,959
2020	2,419,005
2021	1,696,065
2022	1,091,523
2023	514,682
Thereafter	<u>690,537</u>
	<u>\$ 10,529,771</u>

Rent expense for facilities includes common maintenance charges. Total rent expense for the years ended June 30, 2018 and 2017, was \$3,875,122 and \$4,220,026, respectively.

Note 13 – Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2017, were available to purchase equipment for the Business Center. There were no temporarily restricted net assets as of June 30, 2018.

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 has evaluated subsequent events through December 11, 2018, which is the date the financial statements were available to be issued.