

CHILDCAREGROUP

FINANCIAL STATEMENTS

DECEMBER 31, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
ChildCareGroup

We have audited the accompanying statements of financial position of ChildCareGroup (the Organization), as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ChildCareGroup at December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2010 on our consideration of ChildCareGroup's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and the State of Texas Single Audit Circular, respectively, and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
June 11, 2010

**CHILDCAREGROUP
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008**

	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 111,736	\$ 17,144
Investments	469,617	393,035
Accounts receivable	397,356	307,387
Grants receivable	3,947,107	3,165,045
Prepaid expenses	130,294	184,282
Total current assets	5,056,110	4,066,893
OTHER ASSETS		
Restricted cash and cash equivalents	91,269	35,819
Property, plant and equipment, net of accumulated depreciation	892,834	992,308
TOTAL ASSETS	\$ 6,040,213	\$ 5,095,020
CURRENT LIABILITIES		
Accounts payable	\$ 3,356,287	\$ 2,524,246
Accrued expenses	238,352	190,985
Line of credit	470,000	60,000
Advances	224,000	224,000
Deferred revenue	175,921	316,171
Current maturities of note payable	23,497	22,714
Total current liabilities	4,488,057	3,338,116
OTHER LIABILITIES		
Unfunded pension benefit obligation	1,426,543	2,056,911
Note payable, less current maturities	563,602	583,771
Total liabilities	6,478,202	5,978,798
NET ASSETS		
Unrestricted net assets		
Operations	562,056	793,135
Non-current portion of unfunded pension benefit obligation	(1,426,543)	(2,056,911)
Total unrestricted net assets	(864,487)	(1,263,776)
Temporarily restricted net assets	426,498	379,998
Total net assets	(437,989)	(883,778)
TOTAL LIABILITIES AND NET ASSETS	\$ 6,040,213	\$ 5,095,020

The Notes to Financial Statements are an integral part of these statements.

**CHILDCAREGROUP
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Year Ended December 31, 2009	Year Ended December 31, 2008
UNRESTRICTED NET ASSETS		
Support		
Federal awards	\$ 47,965,145	\$ 43,178,269
State awards	11,553,202	10,373,752
Less payments to providers:		
Child Care Assistance	(49,059,625)	(43,409,491)
USDA Food Program	(467,440)	(472,101)
	9,991,282	9,670,429
Receipts from United Way	857,981	857,068
Contributions and special events	712,084	828,161
In-kind contributions	432,762	548,488
Investment income (loss)	76,582	(130,089)
Corporate contracts	370,960	74,694
Program service fees	166,178	165,801
Other income	50,308	55,823
	12,658,137	12,070,375
Assets released from restrictions	199,713	248,022
Total support	12,857,850	12,318,397
EXPENSES		
Programs		
Child Care Assistance	4,241,323	4,225,903
Child Care Training	289,148	215,400
Head Start	3,292,331	3,413,424
Early Head Start for infants and toddlers	2,467,819	2,345,259
Food and nutrition	529,604	510,767
Resource and referral	364,655	271,584
TEEM	289,684	272,611
GetChildCareNow.com	52,289	-
Management and general	1,011,100	1,039,057
IT Projects	337,733	40,719
Development/fundraising	213,243	212,995
Total expenses	13,088,929	12,547,719
Decrease in unrestricted net assets from operations	(231,079)	(229,322)
Defined benefit post-retirement plan:		
Net (increase) decrease in unfunded projected benefit obligation of defined benefit post-retirement plan	630,368	(842,668)
Net increase (decrease) in unrestricted net assets	399,289	(1,071,990)
TEMPORARILY RESTRICTED NET ASSETS		
Assets released from restrictions	(199,713)	(248,022)
Support from foundations and individuals	246,213	198,444
Increase (decrease) in temporarily restricted net assets	46,500	(49,578)
CHANGE IN NET ASSETS	445,789	(1,121,568)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	(883,778)	237,790
NET ASSETS, END OF YEAR	\$ (437,989)	\$ (883,778)

The Notes to Financial Statements are an integral part of these statements.

**CHILDCAREGROUP
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Child Care Assistance</u>	<u>Child Care Training</u>	<u>Head Start</u>	<u>Early Head Start for Infants and Toddlers</u>	<u>Food and Nutrition</u>
Salaries and wages	\$ 2,686,810	\$ 113,993	\$ 1,968,281	\$ 1,426,303	\$ 244,049
Employee benefits and taxes	696,645	27,389	542,655	412,069	74,092
Total salaries, employee benefits and taxes	3,383,455	141,382	2,510,936	1,838,372	318,141
Professional and consulting fees	48,387	24,473	22,048	16,103	783
Contracted program fees	97,098	448	5,932	24,189	67
Program supplies	3,570	25,462	68,075	63,553	185,292
Postage and office supplies	227,583	20,543	30,778	45,094	5,247
Telephone	88,685	1,500	19,809	10,852	1,304
Occupancy	294,624	10,071	245,988	178,282	9,337
Equipment rental and maintenance	27,348	2,356	10,418	7,214	763
Printing and advertising	3,247	520	-	-	1,086
Local travel	5,184	667	10,128	4,451	4,937
Conferences, conventions and meetings	2,986	59,701	6,276	7,281	747
In-kind expenses	-	-	271,401	161,361	-
Insurance	27,538	681	33,372	18,817	1,525
Other expenses	31,618	1,344	9,590	6,396	375
Total expenses, excluding depreciation	4,241,323	289,148	3,244,751	2,381,965	529,604
Depreciation and amortization	-	-	47,580	85,854	-
Total expenses	<u>\$ 4,241,323</u>	<u>\$ 289,148</u>	<u>\$ 3,292,331</u>	<u>\$ 2,467,819</u>	<u>\$ 529,604</u>

The Notes to Financial Statements are an integral part of this statement.

Resource and Referral	TEEM	GetChild CareNow .com	Total	Management and General	IT Projects	Development/ Fundraising	Year Ended December 31, 2009
\$ 222,348	\$ 216,069	\$ 17,393	\$ 6,895,246	\$ 584,891	\$ 196,831	\$ 141,305	\$ 7,818,273
54,494	44,273	3,690	1,855,307	87,996	42,505	24,758	2,010,566
276,842	260,342	21,083	8,750,553	672,887	239,336	166,063	9,828,839
21,889	375	802	134,860	81,768	40,089	1,068	257,785
1,155	13	46	128,948	-	14,648	324	143,920
28,707	-	-	374,659	1,581	-	149	376,389
4,434	3,189	18,470	355,338	34,106	9,601	8,528	407,573
3,846	2,635	70	128,701	12,408	2,325	1,100	144,534
14,052	14,359	817	767,530	37,460	10,514	10,103	825,607
755	101	-	48,955	11,127	248	346	60,676
485	-	-	5,338	6,272	425	981	13,016
1,919	5,370	-	32,656	606	2,592	-	35,854
8,355	-	23	85,369	6,856	15,542	427	108,194
-	-	-	432,762	-	-	-	432,762
818	840	30	83,621	12,707	1,706	1,264	99,298
323	2,460	10,948	63,054	117,849	707	19,227	200,837
363,580	289,684	52,289	11,392,344	995,627	337,733	209,580	12,935,284
1,075	-	-	134,509	15,473	-	3,663	153,645
\$ 364,655	\$ 289,684	\$ 52,289	\$ 11,526,853	\$ 1,011,100	\$ 337,733	\$ 213,243	\$ 13,088,929

**CHILDCAREGROUP
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Child Care Assistance</u>	<u>Child Care Training</u>	<u>Head Start</u>	<u>Early Head Start for Infants and Toddlers</u>	<u>Food and Nutrition</u>
Salaries and wages	\$ 2,664,338	\$ 119,386	\$ 1,947,234	\$ 1,335,424	\$ 232,237
Employee benefits and taxes	722,013	29,662	566,010	411,608	73,156
Total salaries, employee benefits and taxes	3,386,351	149,048	2,513,244	1,747,032	305,393
Professional and consulting fees	54,414	9,780	23,294	9,372	690
Contracted program fees	128,564	-	1,382	19,634	-
Program supplies	3,354	2,043	57,765	63,404	176,965
Postage and office supplies	145,691	4,074	20,619	8,280	5,667
Telephone	95,883	1,409	18,321	9,451	1,310
Occupancy	324,458	1,943	256,596	179,879	9,706
Equipment rental and maintenance	26,191	3,982	15,320	9,146	1,964
Printing and advertising	3,325	-	-	-	1,002
Local travel	6,895	1,337	12,516	3,829	5,247
Conferences, conventions and meetings	3,574	40,326	4,632	12,690	1,070
In-kind expenses	-	-	396,796	151,692	-
Insurance	28,960	304	31,145	18,043	1,538
Other expenses	18,243	1,154	11,472	11,554	215
Total expenses, excluding depreciation	4,225,903	215,400	3,363,102	2,244,006	510,767
Depreciation and amortization	-	-	50,322	101,253	-
Total expenses	<u>\$ 4,225,903</u>	<u>\$ 215,400</u>	<u>\$ 3,413,424</u>	<u>\$ 2,345,259</u>	<u>\$ 510,767</u>

The Notes to Financial Statements are
an integral part of this statement.

Resource and Referral	TEEM	Total	Management and General	IT Projects	Development/ Fundraising	Year Ended December 31, 2008
\$ 171,777	\$ 207,426	\$ 6,677,822	\$ 547,659	\$ 16,146	\$ 98,782	\$ 7,340,409
43,588	42,983	1,889,020	182,421	2,282	16,023	2,089,746
215,365	250,409	8,566,842	730,080	18,428	114,805	9,430,155
15,799	2,096	115,445	39,415	9,680	6,640	171,180
3,736	-	153,316	-	-	-	153,316
4,960	-	308,491	2,654	-	-	311,145
7,009	3,292	194,632	23,136	2,338	7,711	227,817
3,114	2,622	132,110	13,585	-	676	146,371
11,705	5,293	789,580	79,244	-	2,924	871,748
920	152	57,675	11,925	-	101	69,701
551	-	4,878	6,247	1,473	3,744	16,342
2,315	5,557	37,696	1,276	1,267	28	40,267
3,092	-	65,384	11,784	7,372	3,666	88,206
-	-	548,488	-	-	-	548,488
1,232	753	81,975	15,426	-	1,926	99,327
1,160	2,437	46,235	84,355	161	62,040	192,791
270,958	272,611	11,102,747	1,019,127	40,719	204,261	12,366,854
626	-	152,201	19,930	-	8,734	180,865
\$ 271,584	\$ 272,611	\$ 11,254,948	\$ 1,039,057	\$ 40,719	\$ 212,995	\$ 12,547,719

CHILDCAREGROUP
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Year Ended December 31, 2009	Year Ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 445,789	\$ (1,121,568)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	153,645	180,865
Increase (decrease) in unfunded accumulated pension obligation of defined benefit post-retirement plan	(630,368)	842,658
Realized and unrealized (gain) loss on investments	(76,582)	130,134
Increase in accounts receivable	(89,969)	(111,631)
Increase in grants receivable	(782,062)	(289,470)
Decrease in prepaid expenses	53,988	8,693
Increase in accounts payable	832,041	242,716
Increase (decrease) in accrued expenses	47,367	(18,359)
Increase (decrease) in deferred revenue	(140,250)	73,677
Increase in advances	-	4,000
Net cash used in operating activities	(186,401)	(58,285)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of assets	13,330	-
Purchase of property, plant, and equipment	(67,501)	(6,079)
Net cash used in investing activities	(54,171)	(6,079)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under line of credit	410,000	60,000
Payments on long term note	(19,386)	(21,256)
Net cash provided by financing activities	390,614	38,744
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	150,042	(25,620)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	52,963	78,583
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 203,005	\$ 52,963
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 40,392	\$ 41,818

The Notes to Financial Statements are
an integral part of these statements.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

ChildCareGroup (the Organization) is a nonprofit corporation formed in 1901. The purpose of the Organization is to promote, deliver and expand the best child care services available outside of the home. The Organization operates a variety of programs serving children of low income families in the North Texas community. These include direct care programs, training for child care providers, information and education programs and the management of government child care subsidies. Programs are targeted to children aged 0-5 years and are designed to foster optimal emotional, psychological and educational development for the child while providing a safe and secure physical environment for them. Services are also intended to support family function and to encourage economic self-sufficiency.

The Organization has six exemplary child development centers in the Dallas area serving approximately 600 children of low-income families. Most of these children have parents that are working and need child care in order to stay in the workforce. In addition, the Organization manages the child care assistance (subsidy) program for Dallas County on behalf of Workforce Solutions for Greater Dallas (Workforce) and the Texas Workforce Commission. This program serves approximately 14,000 children every day. The Organization determines ongoing eligibility for participants in the program and manages the distribution of subsidy payments to child care providers in the community.

The majority of the Organization's funding comes from government contracts with local, state and federal agencies, including funding from the Department of Health and Human Services for the Organization's Early Head Start program, Head Start of Greater Dallas for the Organization's Head Start program, and Workforce for the Organization's Child Care Assistance program (CCA program). In addition, the Organization is a recipient of funding from the United Way of Metropolitan Dallas. The Organization is the beneficiary of support from many individuals, corporations and foundations who generously support the Organization's programs.

In some cases the Organization does charge fees for its services, usually at subsidized rates, to participants in its programs and sponsoring organizations. The CCA program and the Organization's center operations each make up approximately 45% of total personnel. The remaining 10% of personnel are engaged in training programs, education, and information programs and support services such as human resources, accounting and fundraising.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization follows the standards of accounting and financial reporting for not-for-profit organizations as prescribed by the Financial Accounting Standards Board (the FASB).

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting – Continued

Net assets and revenues and other support are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions. Expenses are classified as unrestricted.

Unrestricted net assets include all net assets over which the board of trustees (the Board) has full discretion to use. From time to time, the Board may designate portions of unrestricted net assets to be used for specific purposes. Such amounts are typically included in unrestricted net assets.

Temporarily and permanently restricted net assets include all net assets over which third parties have imposed restrictions, which cannot be changed by the Board. Temporarily restricted net assets are held for program expenditures. Permanently restricted net assets are long term assets held for capital improvements or principal preservation.

Concentration of Credit Risk

Financial instruments that potentially expose the Organization to concentrations of credit risk consist of cash and cash equivalents. At times, the Organization may have cash and cash equivalent balances in financial institutions in excess of federally insured limits; however the Organization's depository banks pledge securities in amounts sufficient to protect any deposits in excess of Federal Deposit Insurance Corporation insurance.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less and exclude those cash investments designated by the donor for long-term investment, building maintenance or program support.

Included in cash and cash equivalents are \$91,269 and \$35,819 at December 31, 2009 and 2008, respectively, of funds that are primarily restricted by the grantor for reimbursement of CCA child care providers. These funds are held in a separate account as required by the grantor.

Investments

The Organization records investments in equity securities with readily determinable fair values and all investments in debt securities at fair value with gains and losses included in the statement of activities.

The Organization's investments do not have a significant concentration of credit or market risk within an industry or group of investments.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accounts Receivable

Accounts receivable are reported in the statement of financial position at net realizable value. An allowance for doubtful accounts is recognized by the Organization based upon a review of specific customers balances, historical losses (bad debts) incurred and general economic conditions. There is no allowance recorded at December 31, 2009 and 2008.

Grants Receivable

Grants receivable from government agencies represent the only concentrated group of credit risk for the Organization. These amounts are uncollateralized; however management does not believe there is any significant credit risk associated with these balances. In the event of non-performance, the total exposure of the Organization is limited to the amount stated on the balance sheet.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, or if donated, at fair value at the date of contribution. Impairment losses on land, buildings and equipment are recognized whenever events and changes in circumstances indicate that the carrying amount of assets, on an individual property basis, may not be recoverable through undiscounted future cash flows. As of December 31, 2009 and 2008, no impairment losses have been incurred.

Cash contributed for the purpose of acquiring property and equipment is reported as restricted support. In the absence of donor stipulations about how long assets must be maintained, the Organization reports the expiration of donor restrictions once the assets are acquired. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Assets costing less than \$1,000 are expensed; assets costing \$1,000 or more are capitalized. Repairs and maintenance costs are expensed; improvements or betterments are capitalized. Planned major maintenance costs are expensed as incurred.

Depreciation on property and equipment is provided under the straight-line method over the following estimated useful lives:

Buildings	30 years
Building improvements	7 years
Furniture and equipment	3-7 years

Leasehold improvements are depreciated over the estimated useful life of the asset or the length of the lease, whichever is shorter.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Advances

The Organization has received advances from several funding entities, which are due upon expiration of the grant contracts. The most significant is from Head Start of Greater Dallas for the Head Start program.

Financial Instruments

The fair market value of financial instruments is determined by referring to current market data and other valuation techniques as appropriate. The Organization believes that the fair values of financial instruments approximate their recorded values.

Grant Support

The Organization is awarded grant monies from state, federal and local agencies. These funds are recognized as support when earned. Funds received ahead of service delivery are recorded as advances. Grant support includes \$49,527,065 and \$43,881,592 of funds received and subsequently passed through to child care providers during the years ended December 31, 2009 and 2008, respectively. Approximately 90% of grant support is generated from the Workforce contract for both the years ended December 31, 2009 and 2008.

Government contracts are in all cases subject to satisfactory performance by the Organization and may be terminated for poor performance at the discretion of the funding entity.

Corporate Contracts

The Organization receives income through contracts with local and national corporations. These monies are recognized as support when earned. Funds collected in advance of service delivery are recorded as deferred revenue.

Contributions

Unconditional pledges are recognized when verifiable evidence of the pledge is received. Conditional pledges are not recorded until the condition is met; at which time they become unconditional. All pledges are considered available for general programs of the Organization, unless specifically restricted by the donor, in which case they are recorded as temporarily or permanently restricted support, depending on the nature of restriction. There was no allowance for uncollectible pledges at December 31, 2009 or 2008.

Contributions specified by the donor as support for a specific program are recorded as temporarily restricted assets until such time as they are used for their designated purpose, at which time they are released from restriction and transferred to unrestricted net assets. Funds designated for the permanent support or endowment of a specific program or activity, are recorded as restricted revenue.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributions – Continued

Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Income related to special events is recorded as revenue upon receipt. Expenses related to special events are recorded as they are incurred.

Contributed Services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, fundraising and various committee assignments. Contributed services are recognized in accordance with the FASB guidance, which requires the recognition of professional services if those services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Those services that meet the criteria for recognition are reflected in the financial statements as in-kind contributions at the fair value of the services received and offset by like amounts included in expense and assets. Services that do not meet the criteria and accordingly are not recognized in the financial statement may still be utilized for matching requirements on federal or state grants and totaled \$371,293 and \$314,779 for the years ended December 31, 2009 and 2008, respectively.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and other departments benefited.

Income Tax Status

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation.

CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS

NOTE 1. PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Tax Status – Continued

The FASB has recently issued new guidance in accounting for uncertainties in income taxes which requires that the Organization recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties and disclosure.

Tax positions taken related to the Organization's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken by the Organization would more than likely than not be sustained by examination. Accordingly, the Organization has not recorded an income tax liability for uncertain tax benefits.

Use of Estimates

The Organization has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Reclassification

Certain amounts have been reclassified in the prior year to conform with the current year presentation.

Fair Value Measures

In September 2006, the Financial Accounting Standards Board issued new guidance relating to fair value measurements, which is effective for fiscal years beginning after November 15, 2007. The standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price which 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 standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fair Value Measures – Continued

The hierarchy established under the new standard gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). As required under the standard, the Organization's portfolio investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The three levels of the fair value hierarchy under the new standard, and its applicability to the Organization's investments, are described below:

Level 1 – Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date. As required by the standard, the Organization does not adjust the quoted price for these investments, even in situations where the Organization holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are quoted prices for similar investments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

Level 3 – Pricing inputs are unobservable for the investment, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private portfolio investments that are supported by little or no market activity.

The new standard is to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, with certain exceptions including financial instruments previously measured using a blockage factor. The Organization has adopted the provisions of the standard effective January 1, 2008.

Adoption of Accounting Standards Codification (ASC)

In June 2009, the Financial Accounting Standards Board (FASB) issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The Codification reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The Codification supersedes all existing U.S. accounting standards; all other accounting literature not included in the Codification (other than Securities and Exchange Commission guidance for publicly-traded companies) is considered non-authoritative. The Codification was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed the Organization's references to U.S. GAAP accounting standards but did not impact the Organization's results of operations, financial position or liquidity.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

In May 2009, the Financial Accounting Standards Board issued new guidance establishing general standards of accounting for the disclosure of events that occur after the balance sheet date but before financial statements are issued. The Organization adopted the provisions of the guidance, effective May 2009. Subsequent events have been evaluated through June 11, 2010, the date of the independent auditor report.

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31, 2009	December 31, 2008
Land	\$ 80,890	\$ 80,890
Buildings	1,317,383	1,317,383
Building improvements	888,588	870,103
Leasehold improvements	436,080	422,766
Furniture and equipment	1,098,961	1,078,829
Total property and equipment, at cost	3,821,902	3,769,971
Less: accumulated depreciation	(2,929,068)	(2,777,663)
	<u>\$ 892,834</u>	<u>\$ 992,308</u>

Depreciation expense for the years ended December 31, 2009 and 2008 was \$153,645 and \$180,865, respectively.

NOTE 3. INVESTMENTS

The Organization determines the fair value of investments through the FASB guidance on measuring fair value. At December 31, 2009 and 2008, \$469,617 and \$393,035, respectively, had been accumulated in the investment fund. Approximately \$168,967 and \$168,770 of the balance of this fund represents temporarily restricted assets at December 31, 2009 and 2008. The other \$300,650 and \$224,265 represents Board and staff designated funds, which are included in unrestricted net assets. Income from the investments is unrestricted.

The Organization's investments are reported as level 1 investments. At December 31, 2009, \$308,907 was invested in the American Funds Endowments - Growth and Income Portfolio. The remaining \$160,710 was invested in the American Funds – Endowment Bond Portfolio.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. INVESTMENTS – CONTINUED

At December 31, 2008, \$249,261 was invested in the American Funds Endowments - Growth and Income Portfolio. The remaining \$143,774 was invested in the American Funds - Bond Portfolio.

The Organization's investments are considered marketable equity and fixed income securities whose fair value is determined by reference to quoted market prices for investments listed on an exchange or over-the-counter market. Net realized and unrealized gains (losses) on investments were \$76,582 and (\$130,089) for the years ended December 31, 2009 and 2008, respectively.

NOTE 4. LINE OF CREDIT

The Organization has a \$700,000 unsecured line of credit with interest payable quarterly at prime rate (3.25% at December 31, 2009 and 2008). The balance due on this credit line was \$470,000 and \$60,000 at December 31, 2009 and 2008, respectively.

NOTE 5. ACCRUED EXPENSES

Accrued expenses consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Accrued interest	\$ 3,362	\$ 5,197
Accrued vacation	21,315	23,660
Accrued payroll expense	80,214	98,060
Accrued operating expense	133,461	64,068
	<u>\$ 238,352</u>	<u>\$ 190,985</u>

NOTE 6. ADVANCES

Advances consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
Head Start	<u>\$ 224,000</u>	<u>\$ 224,000</u>

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. LEASES

The Organization leases space for the corporate office and for child care facilities, as well as certain office equipment under operating leases. The future minimum lease payments to be recognized as rental expense under non-cancelable operating leases are as follows:

<u>Years Ended December 31,</u>	
2010	\$ 632,434
2011	558,318
2012	553,291
2013	492,496
2014	492,496
	<u>\$ 2,729,035</u>

Rental expense charged to operations during the years ended December 31, 2009 and 2008 totaled \$624,271 and \$627,607, respectively.

NOTE 8. NOTE PAYABLE

During November 2004, the Organization refinanced the loan originally entered into during October 2002 to fund the construction of the infant/toddler wing of the Irving Bock Child Development Center. Advances in the amount of \$682,179 were made to the Organization. Interest is payable at 6.65%. Principal and interest are due in one-hundred nineteen equal monthly installments of \$5,197. Unpaid principal is payable at the last installment date. The loan is secured by real estate.

Maturities of the mortgage loan are as follows:

<u>Years Ended December 31,</u>	
2010	\$ 23,497
2011	25,131
2012	26,775
2013	28,740
2014	482,956
	<u>\$ 587,099</u>

Interest expense for the years ended December 31, 2009 and 2008 was \$40,392 and \$41,818, respectively.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 9. IN – KIND CONTRIBUTIONS

The Organization is a recipient of funds from Head Start and Early Head Start. These awards have non-federal matching requirements, which may include cash or third party in-kind contributions. Certain in-kind contributions allowed by the grant do not meet the criteria established by the FASB and are reflected below as unrecognized contributions. The following is a summary of in-kind contributions:

	For the Year Ended <u>December 31, 2009</u>	For the Year Ended <u>December 31, 2008</u>
Volunteer travel	\$ 371,293	\$ 314,779
Professional services	116,809	188,544
Goods and services	143,274	215,294
In-kind rent	<u>172,679</u>	<u>144,650</u>
	804,055	863,267
Unrecognized contributions	<u>(371,293)</u>	<u>(314,779)</u>
	<u><u>\$ 432,762</u></u>	<u><u>\$ 548,488</u></u>

NOTE 10. EMPLOYEE RETIREMENT PLAN

The ChildCareGroup Employee Retirement Plan and Trust (the Plan) is a pension plan for the employees of the Organization. The Plan was amended to: a) cease accruing benefits, effective May 31, 2005, b) stop taking into account employment after May 31, 2005 for purposes of determining a participant's average monthly compensation, c) stop taking into account compensation of a participant after that date, d) take into account any period of time after May 31, 2005 for the purpose of determining a participant's years of benefit service, and e) allow no employee to become eligible to participate in the Plan after May 31, 2005.

Prior to May 31, 2005, the Plan covered employees who had completed one year of service. It was a noncontributory defined benefit plan. Net assets available for plan benefits and the actuarial present value of accumulated benefit obligations represent amounts attributable to active participants and terminated participants with deferred vested rights. The accrued benefit for each participant is determined by taking into account the participant's years of benefit service and average monthly compensation through the expected date of benefit payment. Prior to May 31, 2005, the Plan also provided a death and disability benefit. Those benefits were also redefined under the amendment dated May 31, 2005.

In accordance with the FASB guidance for defined benefit pension plans, a liability (unfunded pension benefit obligation) has been recognized representing the underfunded status of the ChildCareGroup Employee Retirement Plan and Trust in the amount of \$1,426,543 and \$2,056,911 as of December 31, 2009 and 2008, respectively.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. EMPLOYEE RETIREMENT PLAN – CONTINUED

A plan's funded status represents the excess (deficiency) of plan assets over the projected benefit obligation. The projected benefit obligation is the actuarial present value as of December 31, 2009 and 2008 of all benefits attributed by the pension benefit formula to employee service performed before that date.

The actuarial assumptions used in determining the benefit obligation under the Plan are:

	For the Plan Year Ended <u>December 31, 2009</u>	For the Plan Year Ended <u>December 31, 2008</u>
Weighted average assumptions		
Discount rate	5.98%	6.50%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase:		
Salaries	N/A	N/A

The following table summarizes the Plan's funded status and amounts recorded in the balance sheet.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Projected benefit obligation	\$ (7,300,280)	\$ (6,937,915)
Fair value of plan assets	<u>5,873,737</u>	<u>4,881,004</u>
Under funded status / unfunded PBO	<u>\$ (1,426,543)</u>	<u>\$ (2,056,911)</u>

The above unfunded projected benefit obligation is included in Other Liabilities in the accompanying Statement of Financial Position.

The following table represents net periodic benefit cost, recognized employer contributions and benefits paid for the plan year.

	For the Plan Year Ended <u>December 31, 2009</u>	For the Plan Year Ended <u>December 31, 2008</u>
Benefit cost	\$ 344,069	\$ 113,873
Employer contributions	420,000	550,000
Benefits paid	372,527	352,463

The following table provides expected cash flow information for the Plan:

Expected employer contributions for 2010		\$ 400,000
Expected benefit payments	2010	432,325
	2011	443,844
	2012	449,243
	2013	462,603
	2014	480,135
	2015-2019	2,435,216

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. EMPLOYEE RETIREMENT PLAN – CONTINUED

The following table provides information about the Plan’s asset allocation:

	2009 Asset Allocation	2010 Target Allocation
Equity securities	74.1%	65-70%
Debt securities	23.7%	30-35%
Short-term interest bearing securities	2.2%	0.0%

Investment strategy - The long-term investment strategy of the Plan is to earn a return that is the greater of (a) 3.0% in excess of the inflation rate as measured by the Consumer Price Index, or (b) the nominal actuarial rate of return assumption. This implies a balanced investment approach, conforming to the following asset allocation guidelines: the Investment Manager may invest Trust funds in equity securities from 55% to 75% and debt securities from 25% to 45%, depending on market conditions. Investment manager shall exceed a benchmark represented by the Lipper Balanced Fund Index.

NOTE 11. NET ASSETS

Temporarily restricted net assets as of December 31, 2009 and 2008 consisted of:

Purpose	2009	2008
Child care centers - to be used for the needs of individual centers	\$ 13,533	\$ 14,919
Other restricted contributions	105,041	24,860
United Way- time restriction	138,957	171,449
Investments to be used for the maintenance of Bock Center	168,967	168,770
Total Temporarily restricted net assets	<u>\$ 426,498</u>	<u>\$ 379,998</u>

NOTE 12. PRIOR PERIOD ADJUSTMENTS

In evaluating revenue recognition, the Organization discovered that \$171,449 and \$173,569 of receipts from the United Way had not been accrued as of December 31, 2008 and 2007, respectively.

In addition, in reviewing expense recognition, the Organization discovered \$54,186 and \$46,743 of expenses that were incorrectly accrued as of December 31, 2008 and 2007, respectively.

**CHILDCAREGROUP
NOTES TO FINANCIAL STATEMENTS**

NOTE 12. PRIOR PERIOD ADJUSTMENTS– CONTINUED

The net effect of the adjustments noted above was to increase the January 1, 2009 and 2008 net assets balances by \$225,635 and \$220,312, respectively. These adjustments also increased the December 31, 2008 accounts receivable balance by \$171,449 and decreased receipts from the United Way by \$2,120 for the year then ended.

Additionally, during its review of provider payments, the Organization discovered that grants receivable and accounts payable were understated by \$2,248,902 at December 31, 2008. These adjustments decreased federal, state and local awards and payments to providers by \$410,624, for the year ended December 31, 2008.

SUPPLEMENTARY DATA

**CHILDCAREGROUP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor's Number	Accrued Receipts and Expenditures for the Fiscal Year
MAJOR PROGRAMS			
Department of Health and Human Services/Workforce Solutions			
Child Care & Development Fund	93.575	0609CCF000	\$ 21,588,485
Local Match-CCDF Certified at FMAP	93.596	0609CCF000	18,054,943
CCDF: ARRA	93.713	0609XCQ000	2,076,434
Total Department of Health and Human Services / Workforce Solutions			<u>41,719,862</u>
Department of Health and Human Services			
Early Head Start	93.600	06CH7007-09	1,620,797
Early Head Start- ARRA	93.708	06SE7007-01	26,775
Total Department of Health and Human Services			<u>1,647,572</u>
Department of Health and Human Services/Head Start of Greater Dallas			
Head Start Program	93.600	06CH0382-21	2,631,217
Head Start Program - ARRA	93.708	06SE0382-01	39,530
Total Department of Health and Human Services / Head Start of Greater Dallas			<u>2,670,747</u>
OTHER FEDERAL AWARDS			
Department of Labor/Workforce Solutions			
CCA TANF/Workflow Grant	93.558	0609CCF000	242,023
WIA Adult	17.258	0609WIA000	267,572
WIA Youth	17.259	0609WIY000	333,468
WIA Dislocated Worker	17.260	0609WID000	88,505
Total Department of Labor / Workforce Solutions			<u>931,568</u>
Department of Agriculture/Texas Department of Human Services			
Child and Adult Care Food Program	10.558	TX-057-8005 & TX-057-0150	995,396
Total Department of Agriculture / Texas Department of Human Services			<u>995,396</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 47,965,145</u></u>

CHILDCAREGROUP
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the ChildCareGroup and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
ChildCareGroup

We have audited the financial statements of ChildCareGroup as of and for the year ended December 31, 2009 and have issued our report thereon dated June 11, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ChildCareGroup's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ChildCareGroup's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ChildCareGroup's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 09-01 to be a significant deficiency.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether ChildCareGroup's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

ChildCareGroup
June 11, 2010

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However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
June 11, 2010



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Trustees of
ChildCareGroup

Compliance

We have audited the compliance of ChildCareGroup with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. ChildCareGroup's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of ChildCareGroup's management. Our responsibility is to express an opinion on ChildCareGroup's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ChildCareGroup's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on ChildCareGroup's compliance with those requirements.

In our opinion, ChildCareGroup complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of ChildCareGroup is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ChildCareGroup's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ChildCareGroup's internal control over compliance.

ChildCareGroup
June 11, 2010

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A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
June 11, 2010

**CHILDCAREGROUP
FEDERAL SINGLE AUDIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Section I – Summary of Auditor’s Results

Financial Statements:

Type of audit report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes _____ X no
- Significant deficiencies identified that are not considered to be material weakness(es)? _____ X yes _____ no

Noncompliance material to financial statements noted? _____ yes _____ X no

Federal Awards:

Type of audit report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? _____ yes _____ X no
- Significant deficiencies identified that are not considered to be material weakness(es)? _____ yes _____ X no

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ yes _____ X no

Identification of Major Programs:

<u>CFDA Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program Title</u>
93.596, 93.575, and 93.713	Child Care and Development Fund Cluster
93.600	Head Start and Early Head Start
Dollar threshold used to distinguish between type A and type B programs: \$1,438,954	
Auditee qualified as low-risk auditee?	_____ X yes _____ no

**CHILDCAREGROUP
FEDERAL SINGLE AUDIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Section II – Financial Statement Findings

Finding 09-01

Criteria or Specific Requirement:

The Organization did not properly accrue provider payments and federal revenue for provider services performed during the month December 2009 that were paid subsequent to year-end by Workforce Solutions. Whereas the services were provided during 2009, the expenses and revenues should have been recognized during 2009 as well.

Condition:

() Compliance Finding (X) Significant Deficiency () Material Weakness

Effect:

As a result of the condition described above, net assets were not affected; however, an audit adjustment was required to increase federal revenue and provider payments for the year ended December 31, 2009.

Cause:

The Organization did not properly apply generally accepted accounting principles in recognizing provider payment expense and the related federal revenue for services provided during the month of December 2009.

Recommendation:

We recommend that ChildCareGroup implement policies and procedures to ensure proper revenue and expense recognition with regards to provider payments for services that occur near the end of the fiscal year.

Section III – Corrective Action Plan

Finding 09-01

The Organization agrees that this long standing practice should be changed and has implemented the necessary procedures to do so – effective May 3, 2010. The Organization would like to reiterate that this finding had no impact on net assets and is only a timing issue with respect to recognition of provider payments and reimbursement. At no time were Federal or State Assets at risk.

**CHILDCAREGROUP
FEDERAL SINGLE AUDIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Section IV – Federal Award Findings and Questioned Costs

None.

Section V – Summary Schedule of Prior Year Findings

Finding 08-01

Criteria or Specific Requirement:

The file containing provider payment information that has been approved by the Texas Workforce Commission (TWC) can be manipulated prior to submission to the bank causing unauthorized payments to be made. There is currently no formalized system of documenting and approving changes to this data. In addition, access to the server on which this file is located is not restricted.

Condition:

() Compliance Finding (X) Significant Deficiency () Material Weakness

Status:

Corrected.

**CHILDCAREGROUP
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

<u>State Grantor / Program Title</u>	<u>State Contract Number</u>	<u>State Expenditures</u>
Texas Workforce Commission/ Workforce Solutions		
State Funding of CCDF program	0609CCF000	\$ 8,519,222
DFPS - In-Home	0609CCP000	1,426,286
DFPS - Title IV-B	0609CCP000	191,390
DFPS - Relative Caregiver	0609CCP000	730,688
DFPS - Title IV-E	0609CCP000	<u>397,046</u>
Total Texas Workforce Commission/ Workforce Solutions		<u>11,264,632</u>
Texas Education Agency		
Texas Early Education Model (TEEM) Grant	N/A	<u>288,570</u>
Total Texas Education Agency		<u>288,570</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u><u>\$ 11,553,202</u></u>

CHILDCAREGROUP
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

1. GENERAL

The accompanying Schedule of Expenditures of State Awards presents the activity of all applicable state awards of ChildCareGroup. ChildCareGroup's purpose is defined in Note 1 to the basic financial statements. State awards received directly from state agencies, as well as state awards passed through other government agencies are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of State Awards is presented using the accrual basis of accounting. The accrual basis of accounting is described in Note 1 to the basic financial statements.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM
GRANTS MANAGEMENT STANDARDS AND ON SCHEDULE OF
EXPENDITURES OF STATE AWARDS**

To the Board of Trustees of
ChildCareGroup

Compliance

We have audited the compliance of ChildCareGroup, with the types of compliance requirements described in the Uniform Grants Management Standards issued by the Governor's Office of Budget and Planning that are applicable to each of its major state programs for the year ended December 31, 2009. ChildCareGroup's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of ChildCareGroup's management. Our responsibility is to express an opinion on ChildCareGroup's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Uniform Grant Management Standards issued by the Governor's Office of Budget and Planning. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about ChildCareGroup's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on ChildCareGroup's compliance with those requirements.

In our opinion, ChildCareGroup, complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended December 31, 2009.

Internal Control over Compliance

The management of ChildCareGroup is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered ChildCareGroup's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of ChildCareGroup's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ChildCareGroup's internal control over compliance.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Schedule of Expenditures of State Awards

We have audited the basic financial statements of ChildCareGroup as of and for the year ended December 31, 2009, and have issued our report dated June 11, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of State Awards is presented for purposes of additional analysis as required by State of Texas Single Audit Circular and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management, state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
June 11, 2010

**CHILDCAREGROUP
STATE SINGLE AUDIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Section I – Summary of Auditor’s Results

Financial Statements:

Type of audit report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes _____ X _____ no
- Significant deficiencies identified that are not considered to be material weakness(es)? _____ X _____ yes _____ no

Noncompliance material to financial statements noted? _____ yes _____ X _____ no

State Awards:

Type of audit report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? _____ yes _____ X _____ no
- Significant deficiencies identified that are not considered to be material weakness(es)? _____ yes _____ X _____ no

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of the State of Texas Audit Circular _____ yes _____ X _____ no

Identification of Major Programs:

<u>State Contract Number</u>	<u>State Grantor/Program Title</u>
0609CCF000	State Funding of CCDF Program
0609CCP000	DFPS – In-Home
0609CCP000	DFPS – Relative Caregiver
0609CCP000	DFPS – Title IV-E

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ X _____ yes _____ no

**CHILDCAREGROUP
STATE SINGLE AUDIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Section II – Financial Statement Findings

Finding 09-01

Criteria or Specific Requirement:

The Organization did not properly accrue provider payments and federal revenue for provider services performed during the month December 2009 that were paid subsequent to year-end by Workforce Solutions. Whereas the services were provided during 2009, the expenses and revenues should have been recognized during 2009 as well.

Condition:

() Compliance Finding (X) Significant Deficiency () Material Weakness

Effect:

As a result of the condition described above, net assets were not affected; however, an audit adjustment was required to increase federal revenue and provider payments for the year ended December 31, 2009.

Cause:

The Organization did not properly apply generally accepted accounting principles in recognizing provider payment expense and the related federal revenue for services provided during the month of December 2009.

Recommendation:

We recommend that ChildCareGroup implement policies and procedures to ensure proper revenue and expense recognition with regards to provider payments for services that occur near the end of the fiscal year.

Section III – Corrective Action Plan

Finding 09-01

The Organization agrees that this long standing practice should be changed and has implemented the necessary procedures to do so – effective May 3, 2010. The Organization would like to reiterate that this finding had no impact on net assets and is only a timing issue with respect to recognition of provider payments and reimbursement. At no time were Federal or State Assets at risk.

**CHILDCAREGROUP
STATE SINGLE AUDIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Section IV – State Award Findings and Questioned Costs

None.

Section V – Summary Schedule of Prior Year Findings

None.