

ChildCareGroup

Financial Statements
December 31, 2010 and 2009

ChildCareGroup

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ChildCareGroup

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Independent Auditor's Report

Board of Trustees
ChildCareGroup
Dallas, Texas

We have audited the accompanying statement of financial position of ChildCareGroup (the Organization) as of December 31, 2010, and the related statements of activities and cash flows for the year 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 audit. The financial statements of ChildCareGroup as of December 31, 2009, were audited by other auditors whose report dated June 11, 2010, expressed an unqualified opinion on those statements.

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. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 as of December 31, 2010, and the changes in its net assets and its cash flows for the year 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 May 6, 2011 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is 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 Not-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BDO USA, LLP

Dallas, Texas
May 6, 2011

Financial Statements

ChildCareGroup
Statements of Financial Position

<i>December 31,</i>	2010	2009
Current Assets		
Cash and cash equivalents	\$ 119,135	\$ 111,736
Investments	519,585	469,617
Accounts receivable including grants	1,328,172	1,229,687
Provider subsidies receivable	5,601,311	3,114,776
Prepaid expenses	102,845	130,294
Total current assets	7,671,048	5,056,110
Other Assets		
Restricted cash and cash equivalents	59,598	91,269
Property, plant and equipment, net of accumulated depreciation	827,171	892,834
Total Assets	\$ 8,557,817	\$ 6,040,213
Current Liabilities		
Accounts payable	\$ 132,870	\$ 240,685
Provider subsidies payable	5,603,074	3,115,602
Accrued expenses	407,532	238,352
Line of credit	460,000	470,000
Advances	310,000	224,000
Deferred revenue	198,202	175,921
Current maturities of note payable	25,131	23,497
Total current liabilities	7,136,809	4,488,057
Other Liabilities		
Unfunded pension benefit obligation	1,077,181	1,426,543
Note payable, less current maturities	538,471	563,602
Total liabilities	8,752,461	6,478,202
Net Assets		
Unrestricted net assets		
Operations	632,526	562,056
Minimum pension liability adjustment	(1,077,181)	(1,426,543)
Total unrestricted net assets	(444,655)	(864,487)
Temporarily restricted net assets	250,011	426,498
Total net assets	(194,644)	(437,989)
Total liabilities and net assets	\$ 8,557,817	\$ 6,040,213

The notes to financial statements are an integral part of these statements.

ChildCareGroup

Statements of Activities

<i>For the years ended December 31,</i>	2010	2009
Unrestricted Net Assets		
Support		
Federal awards	\$ 61,703,010	\$ 47,965,145
State awards	10,393,224	11,553,202
Less payments to providers:		
Child Care Assistance	(59,097,796)	(49,059,625)
USDA Food Program	(478,977)	(467,440)
	12,519,461	9,991,282
Receipts from United Way	624,656	857,981
Contributions and special events	406,527	712,084
In-kind contributions	571,890	432,762
Investment income	49,968	76,582
Corporate contracts	107,301	370,960
Program service fees	90,601	166,178
Other income	54,930	50,308
	14,425,334	12,658,137
Assets released from restrictions	594,407	199,713
Total Support	15,019,741	12,857,850
Expenses		
Programs		
Child Care Assistance	4,854,975	4,241,323
Child Care Training	1,218,832	289,148
Head Start	3,228,825	3,292,331
Early Head Start for Infants and Toddlers	3,119,764	2,467,819
Food and Nutrition	530,709	529,604
Resource and Referral	294,153	364,655
Other Programs	279,375	341,973
Management and general	1,046,961	1,011,100
IT Projects	183,356	337,733
Development/fundraising	192,321	213,243
Total Expenses	14,949,271	13,088,929
Increase (decrease) in unrestricted net assets from operations	70,470	(231,079)
Defined benefit post-retirement plan:		
Net decrease in unfunded projected benefit obligation of defined benefit post-retirement plan	349,362	630,368
Net increase in unrestricted net assets	419,832	399,289
Temporarily Restricted Net Assets		
Assets released from restrictions	(594,407)	(199,713)
Support from foundations and individuals	417,920	246,213
Increase (decrease) in temporarily restricted net assets	(176,487)	46,500
Change in Net Assets	243,345	445,789
Net Assets, Beginning of Year	(437,989)	(883,778)
Net Assets, End of Year	\$ (194,644)	\$ (437,989)

The notes to financial statements are an integral part of these statements.

ChildCareGroup

Statements of Functional Expenses

December 31, 2010	Child Care Assistance	Child Care Training	Head Start	Early Head Start for Infants and Toddlers	Food and Nutrition
Salaries and wages	\$ 3,362,626	\$ 288,025	\$ 1,941,819	\$ 1,780,608	\$ 248,861
Employee benefits and taxes	694,157	66,528	476,151	377,917	72,303
Total salaries, employee benefits and taxes	4,056,783	354,553	2,417,970	2,158,525	321,164
Professional and consulting fees	57,218	33,197	18,607	43,861	402
Contracted program fees	2,214	36,960	15,135	5,973	356
Program supplies	53,881	676,623	96,232	173,067	188,120
Postage and office supplies	208,925	14,779	12,129	15,848	3,484
Telephone	68,103	3,051	19,560	18,035	1,285
Occupancy	297,818	30,726	260,777	237,583	8,078
Equipment rental and maintenance	29,609	4,295	7,569	8,793	428
Print and advertising	9,045	3,590	59	791	727
Local travel	7,058	4,888	13,020	9,727	4,433
Conferences, conventions and meeting	23,504	30,975	5,451	19,956	701
In-kind expenses	-	-	270,037	301,853	-
Insurance	19,448	2,001	31,036	26,753	1,205
Other expenses	21,369	22,940	13,918	11,139	326
Total expenses, excluding depreciation	4,854,975	1,218,578	3,181,500	3,031,904	530,709
Depreciation and amortization	-	254	47,325	87,860	-
Total expenses	\$ 4,854,975	\$ 1,218,832	\$ 3,228,825	\$ 3,119,764	\$ 530,709

ChildCareGroup

Statements of Functional Expenses

Resource and Referral	Other Programs	Total	Management and General	IT Projects	Development /Fundraising	Year Ended December 31, 2010
\$ 167,451	\$ 173,822	\$ 7,963,212	\$ 643,768	\$ 120,248	\$ 116,059	\$ 8,843,287
38,430	34,486	1,759,972	121,725	20,181	22,424	1,924,302
205,881	208,308	9,723,184	765,493	140,429	138,483	10,767,589
16,999	31,690	201,974	65,655	9,119	15,924	292,672
17,408	293	78,339	1,000	-	-	79,339
22,704	5,749	1,216,376	1,595	-	-	1,217,971
2,489	1,456	259,110	20,609	8,639	2,590	290,948
1,895	2,051	113,980	11,881	2,282	1,303	129,446
10,532	21,971	867,485	6,899	14,481	12,868	901,733
950	405	52,049	20,647	317	2,506	75,519
-	1,331	15,543	3,305	197	4,450	23,495
2,141	2,776	44,043	828	274	199	45,344
10,030	262	90,879	8,574	4,483	10,898	114,834
-	-	571,890	-	-	-	571,890
1,258	945	82,646	7,488	2,912	1,342	94,388
1,866	2,138	73,696	127,601	-	1,758	203,055
294,153	279,375	13,391,194	1,041,574	183,133	192,321	14,808,223
-	-	135,439	5,386	223	-	141,048
\$ 294,153	\$ 279,375	\$ 13,526,633	\$ 1,046,961	\$ 183,356	\$ 192,321	\$ 14,949,271

The notes to financial statements are an integral part of these statements.

ChildCareGroup

Statements of Functional Expenses

<i>December 31, 2009</i>	Child Care Assistance	Child Care Training	Head Start	Early Head Start for Infants and Toddlers	Food and Nutrition
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
Print and advertising	3,247	520	-	-	1,086
Local travel	5,184	667	10,128	4,451	4,937
Conferences, conventions and meeting	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	\$ 4,241,323	\$ 289,148	\$ 3,292,331	\$ 2,467,819	\$ 529,604

ChildCareGroup

Statements of Functional Expenses

Resource and Referral	Other Programs	Total	Management and General	IT Projects	Development/ Fundraising	Year Ended December 31, 2009
\$ 222,348	\$ 233,462	\$ 6,895,246	\$ 584,891	\$ 196,831	\$ 141,305	\$ 7,818,273
54,494	47,963	1,855,307	87,996	42,505	24,758	2,010,566
276,842	281,425	8,750,553	672,887	239,336	166,063	9,828,839
21,889	1,177	134,860	81,768	40,089	1,068	257,785
1,155	59	128,948	-	14,648	324	143,920
28,707	-	374,659	1,581	-	149	376,389
4,434	21,659	355,338	34,106	9,601	8,528	407,573
3,846	2,705	128,701	12,408	2,325	1,100	144,534
14,052	15,176	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	870	83,621	12,707	1,706	1,264	99,298
323	13,408	63,054	117,849	707	19,227	200,837
363,580	341,973	11,392,344	995,627	337,733	209,580	12,935,284
1,075	-	134,509	15,473	-	3,663	153,645
\$ 364,655	\$ 341,973	\$ 11,526,853	\$ 1,011,100	\$ 337,733	\$ 213,243	\$ 13,088,929

The notes to financial statements are an integral part of these statements.

ChildCareGroup
Statements of Cash Flows

<i>For the years ended December 31,</i>	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 243,345	\$ 445,789
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on sale of equipment	(26,000)	-
Depreciation and amortization	141,048	153,645
Decrease in unfunded accumulated pension obligation of defined benefit post-retirement plan	(349,362)	(630,368)
Realized and unrealized gain on investments	(49,968)	(76,582)
Increase in accounts receivable	(98,484)	(89,969)
Increase in provider subsidies receivable	(2,486,535)	(782,062)
Decrease in prepaid expenses	27,449	53,988
Increase in accounts payable	2,379,657	832,041
Increase in accrued expenses	169,180	47,367
Increase (decrease) in deferred revenue	22,281	(140,250)
Increase in advances	86,000	-
Net cash provided by (used in) operating activities	58,611	(186,401)
Cash Flows from Investing Activities		
Proceeds from disposal of assets	26,000	13,330
Purchase of property, plant, and equipment	(75,385)	(67,501)
Net cash used in investing activities	(49,385)	(54,171)
Cash Flows from Financing Activities		
Borrowings (repayments) under line of credit - net	(10,000)	410,000
Payments on long-term debt	(23,497)	(19,386)
Net cash provided by (used in) financing activities	(33,497)	390,614
Net Increase (Decrease) in Cash and Cash Equivalents	(24,271)	150,042
Cash and Cash Equivalents, beginning of year	203,005	52,963
Cash and Cash Equivalents, end of year	\$ 178,734	\$ 203,005
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 40,528	\$ 40,392

The notes to financial statements are an integral part of these statements.

ChildCareGroup

Notes to Financial Statements

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 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 Greater Dallas (Workforce) and the Texas Workforce Commission. This program serves approximately 16,000 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 child development 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 have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

ChildCareGroup

Notes to Financial Statements

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.

Restricted cash and cash equivalents were \$59,598 and \$91,269 at December 31, 2010 and 2009, respectively, and represent 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.

Accounts Receivable including Grants

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, 2010 and 2009.

ChildCareGroup

Notes to Financial Statements

Provider Subsidies Receivable

Provider subsidies 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, 2010 and 2009, 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:

	Years
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.

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 Organization's financial instruments consist of accounts receivable, investments, accounts payable and note payable. It is management's opinion that the Organization is not exposed to significant interest rate or credit risks arising from these instruments. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

ChildCareGroup

Notes to Financial Statements

Grant Support

The Organization is awarded grant monies from state, federal and local agencies. These funds are generally recognized on a cost reimbursement basis when earned. Funds received ahead of service delivery are recorded as advances. Grant support includes \$59,576,773 and \$49,106,065 of funds received and subsequently passed through to child care providers during the years ended December 31, 2010 and 2009, respectively. Approximately 90% of grant support is generated from the Workforce contract for both the years ended December 31, 2010 and 2009.

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 services required by the contracts are delivered. 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, 2010 or 2009.

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.

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 at the time of event. 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 only recognized for 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

ChildCareGroup

Notes to Financial Statements

in the financial statement may still be utilized for matching requirements on federal or state grants and totaled \$384,722 and \$371,293 for the years ended December 31, 2010 and 2009, 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.

Accounting Standards Codification (ASC) 740-10 Income Taxes 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Reclassification

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

ChildCareGroup

Notes to Financial Statements

Fair Value Measures

Generally accepted accounting principles define fair value and establish a framework for measuring fair value. Various inputs are used in determining fair value measurements. A summary of the fair value hierarchy and the inputs 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.

2. Property, Plant and Equipment

Property, plant and equipment consist of the following:

<i>December 31,</i>	2010	2009
Land	\$ 80,890	\$ 80,890
Buildings	1,317,383	1,317,383
Building and leasehold improvements	1,353,368	1,324,668
Furniture and equipment	1,072,243	1,098,961
Total property and equipment, at cost	3,823,884	3,821,902
Less: accumulated depreciation	(2,996,713)	(2,929,068)
	\$ 827,171	\$ 892,834

Depreciation expense for the years ended December 31, 2010 and 2009 was \$141,048 and \$153,645, respectively.

3. Investments

At December 31, 2010 and 2009, \$519,585 and \$469,617, respectively, had been accumulated in the investment fund. Income from the investments is unrestricted.

The Organization's investments are reported as level 1 investments. At December 31, 2010, \$347,501 was invested in the American Funds Endowments - Growth and Income Portfolio. The remaining \$172,084 was invested in the American Funds - Endowment Bond Portfolio.

ChildCareGroup

Notes to Financial Statements

At December 31, 2009, \$308,907 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 on investments were \$49,968 and \$76,582 for the years ended December 31, 2010 and 2009, respectively.

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, 2010 and 2009). The balance due on this credit line was \$460,000 and \$470,000 at December 31, 2010 and 2009, respectively, and is due on demand.

5. Accrued Expenses

Accrued expenses consist of the following at December 31:

<i>December 31,</i>	2010	2009
Accrued interest	\$ 3,227	\$ 3,362
Accrued vacation	78,270	21,315
Accrued payroll expense	257,527	80,214
Accrued operating expense	68,508	133,461
	\$ 407,532	\$ 238,352

6. Advances

Advances consist of the following at December 31:

<i>December 31,</i>	2010	2009
Head Start	\$ 230,000	\$ 224,000
Workforce Solutions Southeast Texas	80,000	-
	\$ 310,000	\$ 224,000

ChildCareGroup

Notes to Financial Statements

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:

Year ending December 31,

2011	\$ 585,222
2012	584,389
2013	230,540
	<hr/>
	\$ 1,400,151

Rental expense charged to operations during the years ended December 31, 2010 and 2009 totaled \$639,884 and \$624,271, respectively.

8. Note Payable

During November 2004, the Organization refinanced a loan originally entered into in 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 matures on November 1, 2014. The loan is secured by real estate.

Maturities of the mortgage loan are as follows:

Year ending December 31,

2011	\$ 25,131
2012	26,775
2013	28,740
2014	482,956
	<hr/>
	\$ 563,602

Interest expense for the years ended December 31, 2010 and 2009 was \$40,528 and \$40,392, respectively.

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 U.S. GAAP and are reflected below as unrecognized contributions.

ChildCareGroup

Notes to Financial Statements

The following is a summary of in-kind contributions:

<i>For the year ended December 31,</i>	2010	2009
Volunteer workhours	\$ 384,722	\$ 371,293
Professional services	132,530	116,809
Goods and services	88,119	143,274
In-kind rent	351,241	172,679
	956,613	804,055
Unrecognized contributions	(384,722)	(371,293)
	\$ 571,890	\$ 432,762

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.

Generally accepted accounting principles requires employers to recognize in their balance sheet the overfunded or underfunded status of defined benefit plans, measured as the difference between the fair value of plan assets and the projected benefit obligation. Employers must recognize the change in the funded status of the plan in the year in which the change occurs through net assets. 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 \$1,077,181 and \$1,426,543 as of December 31, 2010 and 2009, respectively.

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, 2010 and 2009 of all benefits attributed by the pension benefit formula to employee service performed before that date.

ChildCareGroup

Notes to Financial Statements

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

<i>For the plan year ended December 31,</i>	2010	2009
Weighted average assumptions		
Discount rate	5.76%	5.98%
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.

<i>December 31,</i>	2010	2009
Projected benefit obligation	\$ (7,459,034)	\$(7,300,280)
Fair value of plan assets	6,381,853	5,873,737
Unfunded pension benefit obligation	\$ (1,077,181)	\$(1,426,543)

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.

<i>For the plan year ended December 31,</i>	2010	2009
Benefit cost	\$ 199,576	\$ 344,069
Employer contributions	356,818	420,000
Benefits paid	354,125	372,527

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

<i>Year ending December 31,</i>		
Expected employer contributions for 2011		\$ 343,182
Expected benefit payments	2011	435,549
	2012	442,246
	2013	455,886
	2014	473,911
	2015	477,097
	2016-2020	2,453,781

ChildCareGroup

Notes to Financial Statements

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

	2010 Asset Allocation	2011 Target Allocation
Equity securities	74.6%	65-70%
Debt securities	22.5%	30-35%
Short-term interest bearing securities	2.9%	0.0%

The fair values of the Organization's pension plan assets at December 31, 2010 are as follows:

Asset Categories	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 4,763,458	\$ 4,763,458	\$ -	-
Debt securities	1,449,701	1,449,701	-	-
Cash/Cash equivalents	168,694	168,694	-	-
Total Plan	\$ 6,381,853	\$ 6,381,853	\$ -	-

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.

11. Net Assets

Temporarily restricted net assets as of December 31, 2010 and 2009 consisted of:

Purpose	2010	2009
Child care centers to be used for the needs of individual centers	\$ 8,111	\$ 13,533
Other restricted contributions	124,690	105,041
United Way - time restriction	117,210	138,957
Investments to be used for the maintenance of Bock Center	-	168,967
Total temporary restricted net assets	\$ 250,011	\$ 426,498

ChildCareGroup

Notes to Financial Statements

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes specified by the donors as follows for the year ended December 31:

<i>Released from restriction</i>	2010	2009
United Way	\$ 256,168	\$ 171,449
Contributions	163,269	24,860
Investments and other	174,970	3,404
	<hr/>	<hr/>
	\$ 594,407	\$ 199,713

12. Commitments and Contingencies

The Organization is the subject of various claims arising in the ordinary course of business. In the opinion of management, the ultimate resolution of such claims is not expected to have a material adverse effect upon the financial position or changes in net assets of the Organization.

The Organization receives government grants which are subject to audit by its oversight agency, the Department of Health and Human Services/ Workforce Solutions and other Federal awarding agencies. The Organization is of the opinion that any potential disallowance will not materially affect the financial statements. Therefore, no provision has been made in the accompanying financial statement for any liability that may result.

13. Subsequent Events

In the preparation of its financial statements, the Organization considered subsequent events through May 6, 2011, which was the date the Organization's financial statements were available to be issued.

Supplementary Data

ChildCareGroup

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2010

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			
Workforce Solutions Greater Dallas			
Child Care & Development Fund (CCDF)	93.575	0610CCF000 0611CCF000	\$ 19,773,620
Local Match-CCDF Certified at FMAP	93.596	0610CCM000 0611CCM000 0610CCF000 0611CCF000	19,891,986
Child Care & Development Fund: ARRA	93.713	0609XCC000 0609XCQ000	13,092,500
CCA TANF/Workflow Grant	93.558	0610CCF000 0611CCF000	207,687
Workforce Solutions Greater Dallas			52,965,793
Workforce Solution South East Texas			
Child Care & Development Fund	93.575	1810CCF000	1,637,500
Local Match-CCDF Certified at FMAP	93.596	1810CCF000	188,392
CCDF: ARRA	93.713	1809XCQ000	524,280
Workforce Solution South East Texas			2,350,172
Total Department of Health and Human Services / Workforce Solutions			55,315,965
Department of Health and Human Services			
Early Head Start	93.600	06CH7007/10 06CH7007/11	1,580,370
Early Head Start - ARRA	93.708	06SE7007/01	63,195
Early Head Start - ARRA	93.709	06SA7007/01 06SA7007/02	785,260
Total Department of Health and Human Services			2,428,825
Department of Health and Human Services/Head Start of Greater Dallas			
Head Start Program	93.600	06CH0382-21	2,717,519
Head Start Program - ARRA	93.708	06SE0382-01	120,065
Total Department of Health and Human Services/Head Start of Greater Dallas			2,837,584

ChildCareGroup

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2010

Other Federal Awards

Department of Labor/Workforce Solutions

Workforce Solutions Greater Dallas			
WIA Adult	17.258	0610WIA000	26,792
WIA Youth	17.259	0610WIY000	28,025
WIA Dislocated Worker	17.260	0610WID000	23,477
Workforce Solutions Greater Dallas			78,294

Workforce Solutions South East Texas			
WIA Adult	17.258	1810WIA000	929
WAI Youth	17.259	1810WIY000	8,572
Workforce Solutions South East Texas			9,501

Total Department of Labor / Workforce Solutions			87,795
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Department of Agriculture/Texas
Department of Human Services

		TX-057-8005;	
Child and Adult Care Food Program	10.558	TX-057-0150	1,032,841
Total Department of Agriculture / Texas Department of Human Services			1,032,841

Total Federal Awards		\$	61,703,010
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ChildCareGroup

Notes to Schedule of Expenitures of Federal Awards For the Year Ended December 31, 2010

1. General

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

2. 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 basic 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

Board of Trustees
ChildCareGroup
Dallas, Texas

We have audited the financial statements of ChildCareGroup (the "Organization") as of and for the year ended December 31, 2010, and have issued our report thereon dated May 6, 2011. 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 the Organization'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 the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

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



Compliance and Other Matters

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

We noted certain matters that we reported to management of the Organization in a separate letter dated May 6, 2011.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, those charged with governance, others within the Organization, the United States Department of Health and Human Services, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

Dallas, Texas
May 6, 2011



Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Trustees
ChildCareGroup
Dallas, Texas

Compliance

We have audited the compliance of ChildCareGroup (the Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The Organization's major federal 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 federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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 the Organization'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 of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2010.



Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the 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 the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-1. *A significant deficiency in internal control over compliance* with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.



Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of ChildCareGroup as of and for the year ended December 31, 2010, and have issued our report thereon dated May 6, 2011. 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 Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 management, those charged with governance, others within the entity, the United States Department of Health and Human Services, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLP

Dallas, Texas
May 6, 2011

ChildCareGroup

Schedule of Findings and Questioned Costs Year Ended December 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified No
- Deficiencies identified that are not considered to be material weaknesses No

Noncompliance material to financial statements noted No

Federal Awards

Internal control over major programs

- Material weakness identified: No
- Deficiencies identified that are not considered to be material weaknesses Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: Yes

Identification of major programs:

CFDA Numbers

Federal Grantor/Pass-Through Grantor/Program Title

93.596, 93.575, and 93.713

U.S. Department of Health and Human Services - Child Care and Development Fund Cluster

93.600

U.S. Department of Health and Human Services - Head Start and Early Head Start

Dollar threshold used to distinguish between type A and type B programs: \$1,851,090

Auditee qualified as low-risk auditee? Yes

ChildCareGroup

Schedule of Findings and Questioned Costs Year Ended December 31, 2010

Section II - Financial Statement Findings

The results of our audit procedures disclosed no findings required to be reported for the year ended December 31, 2010.

ChildCareGroup

Schedule of Findings and Questioned Costs Year Ended December 31, 2010

Section III - Federal Award Findings and Questioned Costs

2010-1 - Cash Management

Information on Federal Program:

U.S. Department of Health and Human Services
Head Start and Early Head Start
CFDA 93.600

Criteria: The Code of Federal Regulations CFR Part 226 Title 22 governing payments of federal funds requires that:

- a) Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients.
- b) 1-Recipients will be paid in advance, provided they maintain or demonstrate the willingness to maintain:
 - i- Written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient, and
 - ii- Financial management systems that meet the standards for fund control and accountability as established in Section 226.21

2-Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization or direct program or project costs and the proportionate share of any allowable indirect costs.

Condition: We reviewed management's internal controls over cash draw downs for Head Start and Early Head Start and noted the following:

- a) 28 out of 28 samples of cash draw downs tested did not have evidence of review or approval of the request for drawdown for Early Head Start Grants.
- b) There was no evidence of review or reconciliation between the expenses submitted and the General Ledger related to Early Head Start Grant cash draw downs made during the first 11 months of 2010.
- c) 1 out of 10 Head Start billing samples did not have evidence of review or approval of the request for drawdown.

Effect: Cash draw down requested may be for incorrect amounts or in excess of amounts allowed.

Cause: Lack of employees adherence to the Organization's documentation policies and procedures.

ChildCareGroup

Schedule of Findings and Questioned Costs Year Ended December 31, 2010

Recommendation: We recommend that the Organization follow written policies and procedures for timely reviews of cash draw downs.

Management's Response:

We agree that documentation of our reconciliations and approvals should be improved. However, we would like to point out the following:

The Head Start draws were prepared by a Staff Accountant and approved by the Operations Controller. Although one exception was found, both the reconciliation and the approval for the majority of this billing activity was well documented. The Early Head Start Draws were prepared by the Operations Controller. While documentation was lacking on these, total draws for the contract period agree to General Ledger costs with no discrepancy. Monthly financial reports are prepared and sent to the VP of Operations, the Corporate Controller, and the CFO. A material discrepancy in funding would be apparent.

Effective 12-01-10, we have a new Operations Controller responsible for the Head Start and Early Head Start programs. Prior to the audit commencing, he recognized the need to improve our documentation in this area and began implementing changes.

ChildCareGroup

Schedule of Findings and Questioned Costs Year Ended December 31, 2010

Section IV - Summary of Prior Audit Findings and Questioned Costs

2009-1

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

Status:

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

Schedule of Expenditures of State Awards For the Year Ended December 31, 2010

<i>State Grantor/Program Title</i>	State Contract Number	State Expenditures
Texas Workforce Commission/Workforce Solutions		
Workforce Solutions Greater Dallas		
State Funding of CCDF program	0610CCF000 0611CCF000	\$ 7,695,001
DFPS - In-Home	0610CCP000 0611CCP000	1,167,384
DFPS - Title IV-B	0610CCP000 0611CCP000	96,613
DFPS - Title IV-E	0610CCP000 0611CCP000	650,435
Workforce Solutions Greater Dallas		9,609,433
Workforce Solutions South East Texas		
State Funding of CCDF program	1810CCF000	400,806
DFPS - In-Home	1811CCP000	115,311
DFPS - Title IV-B	1811CCP000	7,492
DFPS - Relative Caregiver	1811CCP000	35,770
DFPS - Title IV-E	1811CCP000	21,689
Workforce Solutions South East Texas		581,068
Total Texas Workforce Commission/Workforce Solutions		10,190,501
Texas Education Agency		
Texas Early Education Model (TEEM) Grant	N/A	202,723
Total Expenditures of State Awards		\$ 10,393,224

ChildCareGroup

Notes to Schedule of Expenditures of State Awards For the Year Ended December 31, 2010

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.



Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With State of Texas Uniform Grants Management Standards and on Schedule of Expenditures of State Awards

Board of Trustees
ChildCareGroup
Dallas, Texas

Compliance

We have audited the compliance of ChildCareGroup (the Organization) with the types of compliance requirements described in the Uniform Grants Management Standards issued by the State of Texas Governor's Office of Budget and Planning that are applicable to each of its major state programs for the year ended December 31, 2010. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization'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 Grants Management Standards issued by the State of Texas 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 the Organization'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 of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major state programs for the year ended December 31, 2010.



Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Organization's 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, 2010, and have issued our report thereon dated May 6, 2011. 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 management, those charged with governance, others within the entity, the 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.

BDO USA, LLP

Dallas, Texas
May 6, 2011

ChildCareGroup
State Single Audit
Schedule of Findings and Questioned Costs
Year Ended December 31, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified No
- Deficiencies identified that are not considered to be material weaknesses No

Noncompliance material to financial statements noted No

State Awards

Internal control over major programs

- Material weakness identified: No
- Deficiencies identified that are not considered to be material weaknesses No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: No

Identification of State major programs:

<u>State Contract Numbers</u>	<u>State Grantor/ Program Title</u>
0609CCF000	Texas Department of Health and Human Services - Child Care and Development Fund
0609CCP000	Texas Department of Family and Protective Services - In-Home
0609CCP000	Texas Department of Family and Protective Services - Relative Caregiver
0609CCP000	Texas Department of Family and Protective Services - Title IV-E

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

Auditee qualified as low-risk auditee? Yes

ChildCareGroup
State Single Audit
Schedule of Findings and Questioned Costs
Year Ended December 31, 2010

Section II - State Award Findings and Questioned Costs

The results of our audit procedures disclosed no findings required to be reported for the year ended December 31, 2010.

ChildCareGroup
State Single Audit
Schedule of Findings and Questioned Costs
Year Ended December 31, 2010

Section III - Summary Schedule of Prior Year Findings

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.

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.

Status

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.