ChildCareGroup

Financial Statements
Years Ended December 31, 2014 and 2013

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Contents

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Independent Auditor's Report

Board of Trustees
ChildCareGroup
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of ChildCareGroup (the "Organization"), which comprise the statements of financial position as of December 31, 2014 and 2013 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular*, we have also issued our reports dated July 14, 2015 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 those reports 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and the *State of Texas Single Audit Circular* in considering Organization's internal control over financial reporting and compliance.

BDO USA, LLP

Fort Worth, Texas
July 14, 2015

Financial Statements

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Statements of Financial Position

December 31,	**2014**	2013
Current Assets		
Cash and cash equivalents	**$ 95,216**	$ 97,603
Investments	**566,330**	715,963
Accounts receivable including grants	**1,529,784**	1,259,773
Provider subsidies receivable	**3,712,253**	3,254,644
Prepaid expenses	**211,867**	255,375
Total current assets	**6,115,450**	5,583,358
Other Assets		
Restricted cash and cash equivalents	**35,265**	86,839
Property and equipment, net	**532,144**	651,941
Total assets	**$ 6,682,859**	$ 6,322,138
Current Liabilities		
Accounts payable	**$ 98,326**	$ 74,157
Provider subsidies payable	**3,733,745**	3,274,392
Accrued expense	**594,018**	816,568
Line of credit	**565,000**	250,000
Advances	**80,000**	303,539
Deferred revenue	**245,986**	429,927
Current maturities of note payable	**20,189**	19,145
Total current liabilities	**5,337,264**	5,167,728
Other Liabilities		
Defined benefit post retirement plan liability	**1,961,058**	996,536
Note payable, less current maturities	**498,298**	518,493
Total liabilities	**7,796,620**	6,682,757
Net Assets (Deficit)		
Unrestricted net deficit	**(1,413,782)**	(475,789)
Temporarily restricted net assets	**300,021**	115,170
Total net deficit	**(1,113,761)**	(360,619)
Total liabilities and net deficit	**$ 6,682,859**	$ 6,322,138

See accompanying notes to financial statements.

ChildCareGroup

Statements of Activities

For the years ended December 31,	2014			2013		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Revenue Support						
Federal awards	**$ 59,569,681**	**$ -**	**$ 59,569,681**	$ 49,711,265	$ -	$ 49,711,265
State awards	**11,286,959**	**-**	**11,286,959**	10,909,246	-	10,909,246
Less payments to providers:						
Child Care Assistance	**(58,127,470)**	**-**	**(58,127,470)**	(49,066,659)	-	(49,066,659)
USDA Food Program	**(643,979)**	**-**	**(643,979)**	(607,922)	-	(607,922)
Net federal/state support	**12,085,191**	**-**	**12,085,191**	10,945,930	-	10,945,930
Receipts from United Way	**666,988**	**-**	**666,988**	545,806		545,806
Contributions and special events	**935,345**	**299,680**	**1,235,025**	878,334	116,405	994,739
In-kind contributions	**522,932**	**-**	**522,932**	392,751	-	392,751
Investment income	**46,216**	**-**	**46,216**	113,374	-	113,374
Corporate contracts	**73,019**	**-**	**73,019**	101,097	-	101,097
Program service fees	**138,657**	**-**	**138,657**	44,806	-	44,806
Other income	**19,938**	**-**	**19,938**	12,651	-	12,651
Revenue and support before assets released from restriction	**14,487,286**	**299,680**	**14,786,966**	13,034,749	116,405	13,151,154
Net assets released from restrictions	**114,829**	**(114,829)**	**-**	120,219	(120,219)	-
Total revenue and support	**14,602,115**	**184,851**	**14,786,966**	13,154,968	(3,814)	13,151,154
Expenses						
Programs						
Child Care Assistance	**4,786,531**	**-**	**4,786,531**	4,445,013	-	4,445,013
Child Care Training	**908,857**	**-**	**908,857**	347,885	-	347,885
Head Start	**3,425,482**	**-**	**3,425,482**	3,370,033	-	3,370,033
Early Head Start	**3,022,706**	**-**	**3,022,706**	2,822,614	-	2,822,614
Food and Nutrition	**466,420**	**-**	**466,420**	471,371	-	471,371
Home Visiting Programs	**529,335**	**-**	**529,335**	431,231	-	431,231
Other Programs	**124,556**	**-**	**124,556**	40,076	-	40,076
Management and general	**807,504**	**-**	**807,504**	818,504	-	818,504
Information technology projects	**81,302**	**-**	**81,302**	91,425	-	91,425
Development/fundraising	**422,893**	**-**	**422,893**	309,136	-	309,136
Total expenses	**14,575,586**	**-**	**14,575,586**	13,147,288	-	13,147,288
Increase in net assets from operations	**26,529**	**184,851**	**211,380**	7,680	(3,814)	3,866
Defined benefit post retirement plan:						
Net decrease (increase) un underfunded projected benefit obligation of defined benefit post retirement plan	**(964,522)**	**-**	**(964,522)**	1,185,001	-	1,185,001
Net increase (decrease) in net assets	**(937,993)**	**184,851**	**(753,142)**	1,192,681	(3,814)	1,188,867
Net Assets (Deficit), beginning of year	**(475,789)**	**115,170**	**(360,619)**	(1,668,470)	118,984	(1,549,486)
Net Assets (Deficit), end of year	**$ (1,413,782)**	**$ 300,021**	**$ (1,113,761)**	$ (475,789)	$ 115,170	$ (360,619)

See accompanying notes to financial statements.

ChildCareGroup

Statement of Functional Expenses

For the year ended December 31,	2014											
	Child Care Assistance	**Child Care Training**	**Head Start**	**Early Head Start**	**Food and Nutrition**	**Home Visiting Programs**	**Other Programs**	**Programs Total**	**Management and General**	**IT Projects**	**Development/ Fundraising**	**Total**
Salaries and wages	$ 3,298,142	$ 248,073	$ 2,033,127	$ 1,194,635	$ 225,754	$ 322,260	$ 64,570	$ 7,386,561	$ 474,537	$ 32,968	$ 256,889	$ 8,150,955
Employee benefits and taxes	724,433	39,971	484,359	285,538	65,744	62,108	10,145	1,672,298	62,197	6,107	41,874	1,782,476
Total salaries, employee benefits and taxes	4,022,575	288,044	2,517,486	1,480,173	291,498	384,368	74,715	9,058,859	536,734	39,075	298,763	9,933,431
Professional and consulting fees	90,704	40,747	28,202	18,904	643	20,436	25,205	224,841	19,360	37,513	28,847	310,561
Contracted program fees	34,350	27,799	21,910	787,052	2,222	4,933	389	878,655	6,267	88	1,977	886,987
Program supplies	143,063	420,894	106,931	229,372	151,124	32,069	16,643	1,100,096	-	-	-	1,100,096
Postage and office supplies	140,090	667	1,085	327	567	882	581	144,199	20,888	328	16,081	181,496
Telephone	26,711	2,716	20,015	13,761	1,713	5,371	86	70,373	4,028	103	1,333	75,837
Occupancy	153,355	20,207	281,059	181,478	5,341	20,180	4,887	666,507	29,493	1,633	16,314	713,947
Equipment rental and maintenance	28,591	1,814	13,222	8,053	581	2,868	212	55,341	53,427	649	2,570	111,987
Print and advertising	1,866	2,601	244	129	931	8,306	226	14,303	48	-	6,469	20,820
Local travel	10,791	4,806	11,675	12,479	5,860	6,909	620	53,140	1,444	11	2,329	56,924
Conferences, conventions and meeting	58,632	96,849	10,876	16,611	3,094	19,729	569	206,360	14,656	1,767	41,832	264,615
In-kind expense	-	-	300,575	222,357	-	-	-	522,932	-	-	-	522,932
Insurance	29,477	1,140	37,543	16,487	2,169	2,185	423	89,424	12,014	135	1,405	102,978
Other expenses	46,326	-	11,228	13,618	677	21,099	-	92,948	68,580	-	4,973	166,501
Total expenses, excluding depreciation and amortization	4,786,531	908,284	3,362,051	3,000,801	466,420	529,335	124,556	13,177,978	766,939	81,302	422,893	14,449,112
Depreciation and amortization	-	573	63,431	21,905	-	-	-	85,909	40,565	-	-	126,474
Total expenses	$ 4,786,531	$ 908,857	$ 3,425,482	$ 3,022,706	$ 466,420	$ 529,335	$ 124,556	$ 13,263,887	$ 807,504	$ 81,302	$ 422,893	$ 14,575,586
Percent of total expenses	32.8%	6.2%	23.5%	20.7%	3.2%	3.6%	1.0%	91.0%	5.5%	0.6%	2.9%	100%

See accompanying notes to financial statements.

***Other Programs** includes: Resource & Referral, Child Care Alliance, Public Pre-K, Texas School Ready!, and GetChildCareNow.com*

ChildCareGroup

Statement of Functional Expenses

For the year ended December 31,	2013											
	Child Care Assistance	Child Care Training	Head Start	Early Head Start	Food and Nutrition	Home Visiting Programs	Other Programs	Programs Total	Management and General	IT Projects	Development/ Fundraising	Total
Salaries and wages	$ 3,148,305	$ 118,756	$ 2,098,906	$ 1,121,722	$ 223,119	$ 282,811	$ 2,276	$ 6,995,895	$ 470,146	$ 11,357	$ 190,938	$ 7,668,336
Employee benefits and taxes	598,129	18,915	429,165	227,515	52,640	49,795	575	1,376,734	61,635	1,747	25,430	1,465,546
Total salaries, employee benefits and taxes	3,746,434	137,671	2,528,071	1,349,237	275,759	332,606	2,851	8,372,629	531,781	13,104	216,368	9,133,882
Professional and consulting fees	86,722	54,084	14,488	8,717	422	641	24,219	189,293	36,086	73,979	11,713	311,071
Contracted program fees	22,921	11,852	17,897	841,631	2,170	6,950	17	903,438	-	-	-	903,438
Program supplies	93,481	72,669	90,817	110,290	169,348	20,425	23	557,053	-	-	-	557,053
Postage and office supplies	128,950	3,377	14,859	16,639	1,500	4,017	2,959	172,301	16,341	795	10,171	199,608
Telephone	34,906	1,170	14,203	11,460	1,868	4,919	22	68,548	7,929	193	1,157	77,827
Occupancy	216,453	14,857	329,475	227,737	8,493	31,997	8,688	837,700	57,591	2,609	17,958	915,858
Equipment rental and maintenance	24,708	1,180	9,659	5,150	552	1,689	433	43,371	33,335	-	1,471	78,177
Print and advertising	2,598	2,403	1,055	60	1,445	1,047	-	8,608	655	-	3,867	13,130
Local travel	9,607	3,657	12,956	10,818	5,951	5,051	71	48,111	1,475	12	1,314	50,912
Conferences, conventions and meeting	16,717	35,571	7,553	12,238	1,398	17,163	404	91,044	9,967	-	40,567	141,578
In-kind expense	-	-	217,686	175,065	-	-	-	392,751	-	-	-	392,751
Insurance	29,380	684	36,814	18,027	1,958	1,989	21	88,873	2,169	65	756	91,863
Other expenses	32,136	7,805	8,998	5,746	507	2,737	368	58,297	89,689	-	3,794	151,780
Total expenses, excluding depreciation and amortization	4,445,013	346,980	3,304,531	2,792,815	471,371	431,231	40,076	11,832,017	787,018	90,757	309,136	13,018,928
Depreciation and amortization	-	905	65,502	29,799	-	-	-	96,206	31,486	668	-	128,360
Total expenses	$ 4,445,013	$ 347,885	$ 3,370,033	$ 2,822,614	$ 471,371	$ 431,231	$ 40,076	$ 11,928,223	$ 818,504	$ 91,425	$ 309,136	$ 13,147,288
Percent of total expenses	33.8%	2.6%	25.6%	21.5%	3.6%	3.3%	0.3%	90.7%	6.2%	0.7%	2.4%	100%

See accompanying notes to financial statements.

***Other Programs** includes: Resource & Referral, Child Care Alliance, Texas School Ready!, and GetChildCareNow.com*

ChildCareGroup

Statements of Cash Flows

For the years ended December 31,		**2014**		2013
Cash Flows from Operating Activities:				
Change in net deficit	**$**	**(753,142)**	$	1,188,867
Adjustments to reconcile change in net deficit to net cash (used in) provided by operating activities:				
Loss on sale or disposal of equipment		**-**		1,889
Depreciation and amortization		**126,474**		128,360
Increase (decrease) increase in unfunded projected benefit obligation of defined benefit post retirement plan		**964,522**		(1,185,001)
Realized and unrealized gain on investments		**(46,216)**		(113,374)
Decrease (increase) in accounts receivable		**(270,011)**		103,647
Decrease (increase) in provider subsidies receivable		**(457,609)**		256,214
Decrease in prepaid expenses		**43,508**		20,133
Increase (decrease) in accounts payable		**24,169**		(39,635)
Increase (decrease) in provider subsidies payable		**459,353**		(475,987)
Increase (decrease) in accrued expenses		**(222,550)**		96,083
Increase (decrease) in advances		**(223,539)**		(10,061)
Increase (decrease) in deferred revenue		**(183,941)**		138,311
Net cash (used in) provided by operating activities		**(538,982)**		109,446
Cash Flows from Investing Activities:				
Proceeds from sale of investments		**195,849**		-
Purchase of property and equipment		**(6,677)**		(196,480)
Net cash provided by (used in) investing activities		**189,172**		(196,480)
Cash Flows from Financing Activities:				
Proceeds from line of credit		**4,178,000**		935,000
Payments on line of credit		**(3,863,000)**		(955,000)
Payments on note payable		**(19,151)**		(19,663)
Net cash provided by (used in) financing activities		**295,849**		(39,663)
Net decrease in cash and cash equivalents		**(53,961)**		(126,697)
Cash and cash equivalents including restricted cash at beginning of year		**184,442**		311,139
Cash and cash equivalents including restricted cash at end of year	**$**	**130,481**	$	184,442
Supplemental Disclosures				
Cash paid for interest	**$**	**31,932**	$	32,220

See accompanying notes to financial statements.

1. Purpose of Organization and Summary of Significant Accounting Polices

Purpose and History

ChildCareGroup (the “Organization”) began in 1901 as one center created to care for the children of women who worked in Dallas’ cotton industry. Over a century later, the Organization remains committed to helping families raise intellectually, emotionally and physically healthy young children.

The Organization’s mission is to promote, deliver and expand the best early care and education programs for children, parents and early childhood professionals. The Organization believes that all children, regardless of background or circumstance, deserve a good start and a solid foundation that will help them succeed later in school and in life.

The Organization implements an early intervention two-generation approach that addresses the distinct needs of children and families living in poverty. Child care is a workforce issue, and low income working parents need access to affordable, quality care for their children in order to go to work or to school. When children receive a quality early education while their parents work or go to school, generational poverty is curtailed and families have new opportunities to thrive.

TEACH

Our direct service **Early Childhood Programs** include:

Center-Based Programs

- **Head Start/Early Head Start** – The Organization operates six Early Care and Education Centers, which serve 627 disadvantaged infants, toddlers and preschoolers and their 950 poverty-level parents.

- **Family Child Care Homes** – The Organization offers home-based child care and education to 64 children in 16 state registered Family Child Care (FCC) Homes.

Home-Based Programs

- **Home-Visiting Programs** – The Born Learning Parent Engagement Program is a comprehensive, evidence-based home visiting program serving 191 children and 150 low-income parents and young children each year.

School-Based Programs

- **Public Pre-K** (School-Based Programs) – A partnership with charter school Uplift Education serving 80 children with quality, relationship-centered public pre-K programming.

TRAIN

Child Care Training & Outreach – The Organization shares its expertise by training in state-required courses, the latest research and best practices to help a professional escalate her career in the early childhood profession. Our state required training programs, leadership and mentoring programs, and quality enhancement program collectively serve 2,750 professionals a year. We also reach the greater community with Resource & Referral support, the Texas School Ready! project, and online resources.

ASSIST

Child Care Assistance - The Organization manages two programs in Dallas County and Southeast Texas that subsidize the cost of care for 28,000 children from low-income families each year, 25,000 of which are in Dallas County alone. The Organization provides this essential financial assistance to families on behalf of Workforce Solutions Greater Dallas and the Texas Workforce Commission.

USDA Food & Nutrition Program - The Organization serves 625,425 healthy meals and snacks to 2,127 children throughout Dallas County, providing at least two-thirds of their daily nutritional requirements.

Funding

The Organization has a diverse funding stream, including revenue from corporations, individuals, private foundations, and government sources. The majority of our funding comes from government grants and contracts on the local, state and federal level, and includes support from Head Start of Greater Dallas, Texas Health and Human Services Commission, University of Texas Health Science Center's Children's Learning Institute (Texas School Ready! project), U.S. Department of Agriculture (Child and Adult Care Food Program), U.S. Department of Health and Human Services – Administration for Children and Families (Early Head Start), Workforce Solutions Greater Dallas, and Workforce Solutions Southeast Texas. The Organization has been a United Way of Metropolitan Dallas Service Provider since 1926, and additional private funding is generously provided by foundations, corporations, and individuals in the community.

The Child Care Assistance Program and the Early Care and Education Center Programs each make up approximately 40%, together 80%, of the total personnel costs at ChildCareGroup. The remaining 20% of personnel costs 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).

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. The Organization had no permanently restricted net assets at December 31, 2014 or 2013.

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 $35,265 and $86,839 at December 31, 2014 and 2013, respectively, and represent funds that are 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 statements of activities.

All investments held by the Organization are marketable securities for which quoted prices are readily available. Therefore, the risk that valuations may differ from the market values is minimal. 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 statements 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. Allowances are provided for accounts receivable including grants when these are estimated to be uncollectible. There is no allowance recorded at December 31, 2014 and 2013.

Provider Subsidies Receivable

Provider subsidies receivable represents the amount due from the government agency for services performed by providers. It is offset almost dollar for dollar by provider subsidies payable which represents our obligation to the providers. Payment to the providers is only made after receiving the money from the government agency.

Provider subsidies receivable represents a potential credit risk for the Organization. For the reasons noted above, management does not believe there is any significant credit risk associated with these balances.

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of contribution. 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 and amortization 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 amortized over the estimated useful life of the asset or the length of the lease, whichever is shorter.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. No impairments have been identified for the years ended December 31, 2014 and 2013.

Advances

The Organization has received advances from several funding entities, which are due upon expiration of the grant contracts. See details at Note 6.

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.

Grant Support

The Organization is awarded grant monies from state, federal and local agencies. These funds are generally recognized on a cost reimbursement basis. Funds received ahead of service delivery or before reimbursable costs are incurred are recorded as advances. Grant support includes $58,771,449 and $49,674,581 of funds received and subsequently passed through to child care providers during the years ended December 31, 2014 and 2013, respectively. Approximately 90% of grant support is generated from the CCA program for both the years ended December 31, 2014 and 2013.

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. Government contracts are also subject to audits by the grantors.

Contributions and Special Events

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.

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 as received are reported as unrestricted support.

Income related to special events is recorded as revenue at the time of the event, except for non-participating donor gifts, which management has determined to be more appropriately treated as contributions. Expenses related to special events are recorded when the event is held.

In-kind Contributions

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 or assets. Services that do not meet the criteria and, accordingly, are not recognized in the financial statements, may still be utilized for matching requirements on federal or state grants. Such unrecognized contributions totaled $357,222 and $600,257 for the years ended December 31, 2014 and 2013, respectively (see Note 9).

Corporate Contracts

The Organization receives income through contracts with local and national corporations. This revenue is recognized when services required by the contracts are delivered. Funds collected in advance of service delivery are recorded as deferred revenue.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and other supporting services 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 requirements 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 likely than not be sustained by examination. Accordingly, the Organization has not recorded an income tax liability for uncertain tax benefits. The organization is still open to examination by taxing authorities from year 2011 forward.

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.

Fair Value Measures

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes 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 ASC 825, *Financial Instruments*, 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 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.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

2. Investments

At December 31, 2014 and 2013, $566,330 and $715,963, 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, 2014, $276,101 was invested in the American Funds - Capital Income Builder Fund, and $290,229 was invested in the American Funds - The Income Fund of America.

At December 31, 2013, $295,757 was invested in the American Funds - Capital Income Builder Fund, $304,375 was invested in the American Funds - The Income Fund of America, and the remaining $115,831 was invested in the American Funds – Washington Mutual Investors Fund.

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. Investment return which includes dividends and net realized and unrealized gains on investments were $46,216 and $113,374 for the years ended December 31, 2014 and 2013, respectively.

3. Property and Equipment

Property and equipment consist of the following at December 31:

	2014	2013
Land	$ 80,890	$ 80,890
Buildings	1,317,383	1,317,383
Buildings and leasehold improvements	1,338,262	1,338,262
Furniture and equipment	1,247,052	1,240,376
Total property and equipment, at cost	3,983,587	3,976,911
Less: accumulated depreciation and amortization	(3,451,443)	(3,324,970)
	$ 532,144	$ 651,941

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was $126,474 and $128,360, respectively.

4. Line of Credit

The Organization has a $1,000,000 unsecured line of credit with interest payable monthly at the prime rate (3.25% at December 31, 2014 and 2013). The balance due on this line of credit was $565,000 and $250,000 at December 31, 2014 and 2013, respectively, and is due on demand.

5. Accrued Expenses

Accrued expenses consist of the following at December 31:

	2014	2013
Accrued rent	$ 118,778	$ 107,183
Accrued vacation	121,649	114,245
Accrued payroll expense	200,864	465,165
Accrued operating expenses	152,727	129,975
	$ 594,018	$ 816,568

6. Advances

Advances received from funding sources include the following at December 31:

	2014	2013
Head Start	$ -	$ 223,539
Workforce Solutions Southeast Texas	80,000	80,000
	$ 80,000	$ 303,539

7. Leases

The Organization leases space for the corporate office and for child care facilities and has 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,		
2015	$	291,834
2016		284,598
2017		284,598
2018		284,598
2019		284,598
Thereafter		948,659
Total	$	2,378,885

Rental expense charged to operations during the years ended December 31, 2014 and 2013 totaled $364,105 and $498,534, respectively, which is included in occupancy expense on the statements of functional expenses.

8. Note Payable

In June 2011, 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. The current loan has an interest rate of 5.25% and monthly payments of $3,942. The loan is based on 20 year amortization, but matures in 7 years from the origination date. Unpaid principal is payable at the last installment date. The loan matures on June 30, 2018. The loan is secured by real estate and requires the organization to maintain certain finance covenants including debt service coverage ratio. As of December 31, 2014, the Organization is in compliance with its debt covenants.

Maturities on the note payable are as follows:

Year ending December 31,		
2015	$	20,189
2016		21,215
2017		22,448
2018		454,635
	$	518,487

Interest expense for the years ended December 31, 2014 and 2013 was $31,932 and $32,220, 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.

The following is a summary of in-kind contributions for the years ended December 31:

	2014	2013
Volunteer workhours	$ 357,222	$ 600,257
Professional services	107,337	71,801
Goods and services	146,366	81,032
In-kind rent	269,229	239,918
	880,154	993,008
Unrecognized contributions	(357,222)	(600,257)
	$ 522,932	$ 392,751

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.

U.S. GAAP requires employers to recognize in their statement of financial position 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 the statement of activities. 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 $1,961,058 and $996,536 as of December 31, 2014 and 2013, 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, 2014 and 2013 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 December 31,	**2014**	2013
Weight average assumptions		
Discount rate	**4.24%**	5.07%
Expected return on plan assets	**5.50%**	7.00%
Rate of compensation increase:		
Salaries	**N/A**	N/A

The following table summarizes the Plan's obligation and funded status and amounts recorded in the statements of financial position.

December 31,	**2014**	2013
Accumulated benefit obligation	**$ (9,886,358)**	$ (8,868,486)
Projected benefit obligation	**$ (9,886,358)**	$ (8,868,486)
Fair value of plan assets	**7,925,300**	7,871,950
	$ (1,961,058)	$ (996,536)

The above underfunded projected benefit obligation is included in Other Liabilities in the accompanying statements of financial position.

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

For the year December 31,	**2014**	2013
Benefit cost	**$ 160,823**	$ 226,674
Employer contributions	**$ 160,823**	$ 227,000
Benefits paid	**$ 463,089**	$ 446,347

Components of net periodic benefit cost recognized as expenses in the statements of activities for the years ended December 31, 2014 and 2013 were:

For the plan year December 31,		**2014**		2013
Amortization of net loss	**$**	**145,693**	$	322,402
Interest cost		**438,027**		366,821
Expected return on assets		**(422,897)**		(462,549)
Net periodic benefit cost	**$**	**160,823**	$	226,674

Assumptions Used to Determine Benefit Cost		
Discount rate	**5.07%**	4.14%
Long-term rate of return on assets	**5.50%**	7.00%
Rate of compensation increase	**N/A**	N/A

Items not yet recognized as a component of net periodic pension cost are as follows:

For the year ended December 31,		**2014**		2013
Net loss	**$**	**3,096,726**	$	2,132,204
Total	**$**	**3,096,726**	$	2,132,204

Amounts of net gains (losses) and net prior service cost recognized in the accompanying statements of activities apart from expenses:				
Net loss amortized during the year	**$**	**(145,693)**	$	(322,728)
Net loss (gain) incurred during the year		**1,110,215**		(862,273)
Total	**$**	**964,522**	$	(1,185,001)

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

For the year ended December 31,			
Expected employer contributions for 2015		$	222,254
Expected benefit payments	2015	$	492,000
	2016	$	486,000
	2017	$	484,000
	2018	$	512,000
	2019	$	528,000
	2020-2024	$	2,818,000

Expected Amortization Amounts during Fiscal Year Ending December 31, 2014		
Amortization of net loss	$	**243,372**
Total	$	**243,372**

This expected amortization amount has been determined assuming there are no special events, plan amendments, assumption changes, or actuarial losses or gains during the upcoming fiscal year.

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

	2014 Asset Allocation	2015 Target Allocation
Equity securities	74.82%	55-75%
Debt securities	23.64%	25-45%
Short-term interest bearing securities	1.54%	0.0%

The fair values of the Organization's pension plan assets at December 31, 2014 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 – Common Stock	**$ 5,929,621**	**$ 5,929,621**	**$ -**	**$ -**
Debt securities - Corporate Bonds	**1,873,437**	**1,873,437**	**-**	**-**
Cash/Cash equivalents	**122,242**	**122,242**	**-**	**-**
Total Plan	**$ 7,925,300**	**$ 7,925,300**	**$ -**	**$ -**

The fair values of the Organization's pension plan assets at December 31, 2013 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 – Common Stock	$ 5,926,681	$ 5,926,681	$ -	$ -
Debt securities – Corporate Bonds	1,758,768	1,758,768	-	-
Cash/Cash equivalents	186,501	186,501	-	-
Total Plan	$ 7,871,950	$ 7,871,950	$ -	$ -

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. The investment manager shall exceed a benchmark represented by the Lipper Balanced Fund Index.

11. Net Assets

Temporarily restricted net assets as of December 31, 2014 and 2013 consisted of:

Purpose	**2014**	2013
Child care center programs	**$ 176,925**	$ 2,358
Management and general	**48,750**	-
USDA family day homes	**903**	-
Sponsorships to Great Adventure Hunt		90,167
Training programs	**73,443**	22,645
Total temporary restricted net assets	**$ 300,021**	$ 115,170

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:

Released from restriction	**2014**	2013
Child care center programs	**$ 2,017**	$ 62,731
Sponsorships to Great Adventure Hunt	**90,167**	10,000
Training programs	**22,645**	28,067
Other restricted contributions	**-**	19,421
	$ 114,829	$ 120,219

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, other Federal awarding agencies, and State of Texas. 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

The Organization has evaluated subsequent events from the date of the statement of financial position to July 14, 2015, the date these financial statements were available to be issued, and determined that there are no significant events that require adjustment to or disclosure in these financial statements.