ChildCareGroup

Financial Statements
As of and for the Years Ended
December 31, 2015 and 2014

ChildCareGroup

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December 31, 2015 and 2014

ChildCareGroup

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, 2015 and 2014 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, 2015 and 2014, 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 May 6, 2016 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

May 6, 2016

Financial Statements

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Statements of Financial Position

December 31,	**2015**	2014
Current Assets		
Cash and cash equivalents	**$ 21,403**	$ 95,216
Investments	**553,972**	566,330
Accounts receivable including grants	**2,032,925**	1,529,784
Provider subsidies receivable	**4,056,769**	3,712,253
Prepaid expenses	**145,595**	211,867
Total current assets	**6,810,664**	6,115,450
Other Assets		
Restricted cash and cash equivalents	**46,229**	35,265
Property and equipment, net	**430,786**	532,144
Total assets	**$ 7,287,679**	$ 6,682,859
Current Liabilities		
Accounts payable	**$ 109,800**	$ 98,326
Provider subsidies payable	**4,074,366**	3,733,745
Accrued expense	**911,647**	594,018
Line of credit	**305,000**	565,000
Advances	**83,443**	80,000
Deferred revenue	**401,635**	245,986
Current maturities of note payable	**21,215**	20,189
Total current liabilities	**5,907,106**	5,337,264
Other Liabilities		
Defined benefit post retirement plan liability	**1,460,920**	1,961,058
Note payable, less current maturities	**477,078**	498,298
Total liabilities	**7,845,104**	7,796,620
Net Assets (Deficit)		
Unrestricted net deficit	**(893,560)**	(1,413,782)
Temporarily restricted net assets	**336,135**	300,021
Total net deficit	**(557,425)**	(1,113,761)
Total liabilities and net deficit	**$ 7,287,679**	$ 6,682,859

See accompanying notes to financial statements.

ChildCareGroup

Statements of Activities

For the years ended December 31,	2015		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Federal awards	$ 56,181,489	$ 11,710	$ 56,193,199
State awards	11,243,210	-	11,243,210
Less payments to providers:			
Child Care Assistance	(52,543,580)	-	(52,543,580)
USDA Food Program	(687,122)	-	(687,122)
Net federal/state support	14,193,997	11,710	14,205,707
Receipts from United Way	667,551	-	667,551
Contributions and special events	1,116,723	210,848	1,327,571
In-kind contributions	684,938	-	684,938
Investment income	(12,357)	-	(12,357)
Corporate contracts	25,455	-	25,455
Program service fees	416,158	-	416,158
Other income	47,822	-	47,822
Revenue and support before assets released from restriction	17,140,287	222,558	17,362,845
Net assets released from restrictions	186,444	(186,444)	-
Total revenue and support	17,326,731	36,114	17,362,845
Expenses			
Programs			
Child Care Assistance	5,534,752	-	5,534,752
Child Care Training	276,178	-	276,178
Head Start	3,694,435	-	3,694,435
Early Head Start	4,774,765	-	4,774,765
Food and Nutrition	552,672	-	552,672
Home Visiting Programs	627,510	-	627,510
Public Pre-K	342,096	-	342,096
Other Programs	106,180	-	106,180
Management and general	866,676	-	866,676
Development/fundraising	531,383	-	531,383
Total expenses	17,306,647	-	17,306,647
Increase in net assets from operations	20,084	36,114	56,198
Defined benefit post retirement plan:			
Net decrease (increase) in underfunded projected benefit obligation of defined benefit post retirement plan	500,138	-	500,138
Net increase (decrease) in net assets	520,222	36,114	556,336
Net Assets (Deficit), beginning of year	(1,413,782)	300,021	(1,113,761)
Net Assets (Deficit), end of year	$ (893,560)	$ 336,135	$ (557,425)

ChildCareGroup

Statements of Activities

2014		
Unrestricted	Temporarily Restricted	Total
$ 59,569,681	$ -	$ 59,569,681
11,286,959	-	11,286,959
(58,127,470)	-	(58,127,470)
(643,979)	-	(643,979)
12,085,191	-	12,085,191
666,988	-	666,988
933,513	299,680	1,233,193
522,932	-	522,932
46,216	-	46,216
73,019	-	73,019
138,657	-	138,657
20,770	-	20,770
14,487,286	299,680	14,786,966
114,829	(114,829)	-
14,602,115	184,851	14,786,966
4,786,531	-	4,786,531
908,857	-	908,857
3,425,482	-	3,425,482
3,022,706	-	3,022,706
466,420	-	466,420
529,335	-	529,335
92,331	-	92,331
113,527	-	113,527
807,504	-	807,504
422,893	-	422,893
14,575,586	-	14,575,586
26,529	184,851	211,380
(964,522)	-	(964,522)
(937,993)	184,851	(753,142)
(475,789)	115,170	(360,619)
$ (1,413,782)	$ 300,021	$ (1,113,761)

See accompanying notes to financial statements.

ChildCareGroup

Statement of Functional Expenses

For the year ended December 31, 2015

	Child Care Assistance	Child Care Training	Head Start	Early Head Start	Food and Nutrition	Home Visiting Programs
Salaries and wages	$ 3,449,747	$ 144,882	$ 2,134,752	$ 1,743,690	$ 256,317	$ 361,238
Employee benefits and taxes	748,337	24,630	505,841	392,381	75,004	70,692
Total salaries, employee benefits and taxes	4,198,084	169,512	2,640,593	2,136,071	331,321	431,930
Professional and consulting fees	73,392	1,089	27,738	23,798	1,085	23,236
Contracted program fees	81,721	8,340	24,434	1,549,369	2,536	11,346
Supplies	485,491	37,139	140,741	358,340	192,485	51,146
Telephone	28,911	1,210	25,648	27,670	1,670	4,877
Occupancy	153,579	12,149	259,789	175,220	5,326	19,326
Equipment rental and maintenance	33,335	4,998	16,110	17,747	688	3,820
Print and advertising	4,506	1,874	2,500	4,505	1,166	1,660
Local travel	12,222	3,816	10,211	27,060	6,271	10,238
Conferences, conventions and meeting	245,629	37,618	14,594	47,540	2,106	27,845
In-kind expense	-	-	393,080	291,858	-	-
Insurance	29,202	782	37,149	19,653	2,164	2,343
Other expenses	188,680	(2,922)	47,262	74,029	5,854	39,743
Total expenses, excluding depreciation and amortization	5,534,752	275,605	3,639,849	4,752,860	552,672	627,510
Depreciation and amortization	-	573	54,586	21,905	-	-
Total expenses	$ 5,534,752	$ 276,178	$ 3,694,435	$ 4,774,765	$ 552,672	$ 627,510
Percent of total expenses	32.0 %	1.6 %	21.3 %	27.6 %	3.2%	3.6%

Other Programs *includes: Child Care Alliance ($51K), IT Projects ($30K), Early Childhood non-grant ($19K), Texas School Ready! ($3K), and Resource & Referral ($3K)*

** Negative amounts in Other Expense line represent transfers between programs*

ChildCareGroup

Statement of Functional Expenses

	Public Pre-K		Other Programs		Programs Total		Management and General		Development/ Fundraising		Total
$	250,263	$	32,735	$	8,373,624	$	548,103	$	305,097	$	9,226,824
	44,413		5,496		1,866,794		70,200		55,261		1,992,255
	294,676		38,231		10,240,418		618,303		360,358		11,219,079
	515		89,111		239,964		97,082		36,348		373,394
	6,032		1,297		1,685,075		9,155		3,910		1,698,140
	26,065		1,724		1,293,131		18,603		10,599		1,322,333
	251		244		90,481		3,724		1,543		95,748
	1,766		2,961		630,116		29,299		19,732		679,147
	56		159		76,913		58,469		2,070		137,452
	35		-		16,246		515		17,285		34,046
	1,543		99		71,460		1,187		3,384		76,031
	1,171		537		377,040		14,063		48,205		439,308
	-		-		684,938		-		-		684,938
	1,926		140		93,359		1,962		1,664		96,985
	8,060		(28,323)		332,383		(26,897)		26,285		331,771
	342,096		106,180		15,831,524		825,465		531,383		17,188,372
	-		-		77,064		41,211		-		118,275
$	342,096	$	106,180	$	15,908,588	$	866,676	$	531,383	$	17,306,647
	2.0%		0.6%		91.9%		5.0%		3.1 %		100%

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
Salaries and wages	$ 3,298,142	$ 250,772	$ 2,033,127	$ 1,194,635	$ 225,754	$ 322,260
Employee benefits and taxes	724,433	40,406	484,359	285,538	65,744	62,108
Total salaries, employee benefits and taxes	4,022,575	291,178	2,517,486	1,480,173	291,498	384,368
Professional and consulting fees	90,704	41,191	28,202	18,904	643	20,436
Contracted program fees	34,350	28,102	21,910	787,052	2,222	4,933
Supplies	206,574	425,475	106,931	229,372	151,124	32,069
Telephone	26,711	2,746	20,015	13,761	1,713	5,371
Occupancy	153,355	20,427	281,059	181,478	5,341	20,180
Equipment rental and maintenance	28,591	1,834	13,222	8,053	581	2,868
Print and advertising	1,866	2,630	244	129	931	8,306
Local travel	10,792	4,858	11,675	12,479	5,860	6,909
Conferences, conventions and meeting	58,632	97,903	10,876	16,611	3,094	19,729
In-kind expense	-	-	300,575	222,357	-	-
Insurance	29,477	1,152	37,543	16,487	2,169	2,185
Other expenses	122,904	(9,212)	12,313	13,945	1,244	21,981
Total expenses, excluding depreciation and amortization	4,786,531	908,284	3,362,051	3,000,801	466,420	529,335
Depreciation and amortization	-	573	63,431	21,905	-	-
Total expenses	$ 4,786,531	$ 908,857	$ 3,425,482	$ 3,022,706	$ 466,420	$ 529,335
Percent of total expenses	32.8%	6.2%	23.5%	20.7%	3.2%	3.6%

Other Programs includes: Child Care Alliance ($23K), IT Projects ($81K), Texas School Ready! ($7K), and Resource & Referral ($3K)

** Negative amounts in Other Expense line represent transfers between programs*

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Statement of Functional Expenses

Public Pre-K	Other Programs	Programs Total	Management and General	Development / Fundraising	Total
$ 62,727	$ 48,416	$ 7,435,833	$ 474,538	$ 256,889	$ 8,167,260
9,892	8,880	1,681,360	62,196	41,874	1,785,430
72,619	57,296	9,117,193	536,734	298,763	9,952,690
2	79,249	279,331	19,359	28,847	327,537
397	132	879,098	6,267	1,977	887,342
17,117	684	1,169,346	19,140	13,543	1,202,029
1	234	70,552	4,028	1,333	75,913
359	7,038	669,237	29,493	16,314	715,044
16	1,123	56,288	53,427	2,570	112,285
-	235	14,341	48	6,469	20,858
596	66	53,235	1,444	2,329	57,008
62	3,027	209,934	14,656	41,832	266,422
-	-	522,932	-	-	522,932
429	202	89,644	12,014	1,405	103,063
733	(35,759)	128,149	70,329	7,511	205,989
92,331	113,527	13,259,280	766,939	422,893	14,449,112
-	-	85,909	40,565	-	126,474
$ 92,331	$ 113,527	$ 13,345,189	$ 807,504	$ 422,893	$ 14,575,586
0.6%	0.8%	91.6%	5.5%	2.9%	100%

See accompanying notes to financial statements.

ChildCareGroup

Statements of Cash Flows

For the years ended December 31,		**2015**		2014
Cash Flows from Operating Activities:				
Change in net deficit	**$**	**556,336**	$	(753,142)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:				
Depreciation and amortization		**118,275**		126,474
Increase (decrease) increase in unfunded projected benefit obligation of defined benefit post retirement plan		**(500,138)**		964,522
Realized and unrealized loss (gain) on investments		**12,357**		(46,216)
Decrease (increase) in accounts receivable		**(503,140)**		(270,011)
Decrease (increase) in provider subsidies receivable		**(344,516)**		(457,609)
Decrease in prepaid expenses		**66,272**		43,508
Increase in accounts payable		**11,474**		24,169
Increase in provider subsidies payable		**340,621**		459,353
Increase (decrease) in accrued expenses		**317,629**		(222,550)
Increase (decrease) in advances		**3,443**		(223,539)
Increase (decrease) in deferred revenue		**155,649**		(183,941)
Net cash provided by (used in) operating activities		**234,262**		(538,982)
Cash Flows from Investing Activities:				
Proceeds from sale of investments		**-**		195,849
Purchase of property and equipment		**(16,917)**		(6,677)
Net cash (used in) provided by investing activities		**(16,917)**		189,172
Cash Flows from Financing Activities:				
Borrowings (repayments) under line of credit – net		**(260,000)**		315,000
Payments on note payable		**(20,194)**		(19,151)
Net cash (used in) provided by financing activities		**(280,194)**		295,849
Net decrease in cash and cash equivalents		**(62,849)**		(53,961)
Cash and cash equivalents including restricted cash at beginning of year		**130,481**		184,442
Cash and cash equivalents including restricted cash at end of year	**$**	**67,632**	$	130,481
Supplemental Disclosures				
Cash paid for interest	**$**	**28,299**	$	31,932

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 on McKinney Avenue in Dallas and had a single purpose – to care for the children of women who worked in Dallas' cotton industry. The belief 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 is a guiding principle for the Organization, whose programs are built on over a century of experience in helping provide a safe, nurturing, educational setting for young children and support services to help parents lift their families out of poverty.

The Organization's mission is to promote, deliver and expand the best early care and education programs for children, parents and early childhood professionals. Through a two-generation approach addressing the distinct needs of children and families living in poverty, the Organization secures the investment in young children by assisting parents as well. Child care is a workforce issue; therefore, the Organization helps provide parents with access to affordable, quality care to that they can support their families by working, attending school, and reaching other self-sufficiency goals.

The Organization touches the lives of more than 40,000 children, parents, and early childhood professionals every year. As a leader in early care and education, the Organization is the only early childhood education agency locally that provides services across all segments of the industry, offering evidence-based programs to serve children, parents, and early childhood professionals in Dallas County, Collin County, and beyond.

Program Descriptions

TEACH – Early Childhood Education Programs – To meet families where they are, the Organization's Early Childhood Education programs offers three major direct service program areas: center-, home-, and school-based. The Organization's Early Care and Education Centers and Family Child Care Homes serve disadvantaged infants, toddlers and preschoolers and their parents, most of whom are single and all of whom live at or below the poverty level. All of our Centers hold the highest accreditation in early childhood from the National Association for the Education of Young Children (NAEYC). The Organization's Born Learning Parent Engagement Program is a comprehensive, evidence-based home visiting program for low-income families in vulnerable neighborhoods that implements the rigorous Parents as Teachers curriculum model. The Organization's Uplift Education partnership allows children in the charter public school system to receive high quality public pre-K and continue into Uplift's successful college-bound program.

TRAIN – Professional Development Programs – The early childhood profession is dominated by women and minorities who generally have low levels of education. The Organization's goal is to help stabilize and professionalize this economically fragile industry by providing training in the state-required courses using the latest research and best practices to help a professional escalate her career in the early childhood profession. Content areas include CPR, transportation safety, managing staff performance and child abuse/neglect, leadership, change management, and childhood obesity prevention.

ASSIST – Child Care Assistance – The Organization manages a USDA Food and Nutrition Program for Dallas County as well as two programs in Dallas County and Southeast Texas that subsidize the cost of care for tens of thousands of children from low-income families each year. These programs leverage the Organization's ability to increase quality across the community and to support families with healthy nutrition and with financial assistance for the high cost of child care so that parents can remain in the workforce.

Funding

The Organization has a diverse funding stream, including revenue from corporations, individuals, private foundations, and government sources. The Organization receives funding through local, state and federal grants and contracts, including 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. These government sources of revenue allow the Organization to serve on a scale unmatched by other service providers. Private funding is necessary to operate programs and access government funding. 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.

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, 2015 or 2014.

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 $46,229 and $35,265 at December 31, 2015 and 2014, 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, 2015 and 2014.

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, 2015 and 2014.

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 $53,230,702 and $58,771,449 of funds received and subsequently passed through to child care providers during the years ended December 31, 2015 and 2014, respectively. Approximately 90% of grant support is generated from the CCA program for both the years ended December 31, 2015 and 2014.

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 $703,693 and $357,222 for the years ended December 31, 2015 and 2014, 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 may be 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

The Organization's investments are reported as level 1 investments. Income from the investments is unrestricted and consists of the following at December 31:

		2015		2014
American Funds – Capital Income Building Fund	$	**268,026**	$	276,101
American Funds – The Income Fund of America		**285,946**		290,229
Totals	$	**553,972**	$	566,330

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/(losses) on investments were $(12,357) and $46,216 for the years ended December 31, 2015 and 2014, respectively.

3. Property and Equipment

Property and equipment consist of the following at December 31:

		2015		2014
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		**1,235,870**		1,247,052
Total property and equipment, at cost		**3,972,405**		3,983,587
Less: accumulated depreciation and amortization		**(3,541,619)**		(3,451,443)
	$	**430,786**	$	532,144

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was $118,275 and $126,474, respectively.

4. Line of Credit

The Organization has a $1,000,000 unsecured line of credit with interest payable monthly at the prime rate (3.50% and 3.25% at December 31, 2015 and 2014, respectively). The balance due on this line of credit was $305,000 and $565,000 at December 31, 2015 and 2014, respectively, and is due on demand.

5. Accrued Expenses

Accrued expenses consist of the following at December 31:

		2015		2014
Accrued rent	$	122,491	$	118,778
Accrued vacation		191,386		121,649
Accrued payroll expense		254,183		200,864
Accrued operating expenses		343,587		152,727
	$	911,647	$	594,018

6. Advances

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

		2015		2014
U S Department of Agriculture	$	3,443	$	-
Workforce Solutions Southeast Texas		80,000		80,000
	$	83,443	$	80,000

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,		
2016	$	362,574
2017		365,044
2018		365,044
2019		337,878
2020		335,409
Thereafter		782,620
Total	$	2,548,569

Rental expense charged to operations during the years ended December 31, 2015 and 2014 totaled $354,640 and $364,105, 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, 2015, the Organization is in compliance with its debt covenants.

Maturities on the note payable are as follows:

Year ending December 31,		
2016	$	21,215
2017		22,448
2018		454,630
	$	498,293

Interest expense for the years ended December 31, 2015 and 2014 was $28,299 and $31,932, 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:

		2015		2014
Volunteer workhours	**$**	**703,693**	$	357,222
Professional services		**285,055**		107,337
Goods and services		**103,120**		146,366
In-kind rent		**296,763**		269,229
		1,388,631		880,154
Unrecognized contributions		**(703,693)**		(357,222)
	$	**684,938**	$	522,932

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 $1,460,920 and $1,961,058 as of December 31, 2015 and 2014, 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, 2015 and 2014 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,	**2015**	2014
Weighted average assumptions		
Discount rate	**4.74%**	4.24%
Expected return on plan assets	**5.50%**	5.50%
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,	**2015**	2014
Accumulated benefit obligation	**$ (9,008,807)**	$ (9,886,358)
Projected benefit obligation	**$ (9,008,807)**	$ (9,886,358)
Fair value of plan assets	**7,547,887**	7,925,300
	$ (1,460,920)	$ (1,961,058)

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,	**2015**	2014
Benefit cost	**$ 230,836**	$ 160,823
Employer contributions	**$ 230,836**	$ 160,823
Benefits paid	**$ 476,949**	$ 463,089

Components of net periodic benefit cost recognized as expenses in the statements of activities for the years ended December 31, 2015 and 2014 were:

For the plan year December 31,	**2015**	2014
Amortization of net loss	**$ 251,155**	$ 145,693
Interest cost	**407,526**	438,027
Expected return on assets	**(427,845)**	(422,897)
Net periodic benefit cost	**$ 230,836**	$ 160,823

Assumptions Used to Determine Benefit Cost	**2015**	2014
Discount rate	**4.24%**	5.07%
Long-term rate of return on assets	**5.50%**	5.50%
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,	**2015**	2014
Net loss	**$ 2,596,588**	$ 3,096,726
Total	**$ 2,596,588**	$ 3,096,726
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	**$ (251,155)**	$ (145,693)
Net loss (gain) incurred during the year	**(248,983)**	1,110,215
Total	**$ (500,138)**	$ 964,522

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

For the year ended December 31,		
Expected employer contributions for 2016		$ 219,738
Expected benefit payments	2016	$ 509,000
	2017	$ 505,000
	2018	$ 517,000
	2019	$ 529,000
	2020	$ 560,000
	2021-2025	$ 2,806,000

Expected Amortization Amounts for 2016	
Amortization of net loss	**$ 211,963**
Total expected to be recognized	**$ 211,963**

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:

	2015 Asset Allocation	2016 Target Allocation
Equity securities	75.3%	55-75%
Debt securities	22.7%	25-45%
Short-term interest bearing securities	2.0%	0.0%

The fair values of the Organization's pension plan assets at December 31, 2015 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	**$ 5,686,715**	**$ 5,686,715**	**$ -**	**$ -**
Debt securities – Corporate Bonds	**1,714,109**	**1,714,109**	**-**	**-**
Cash/Cash equivalents	**147,063**	**147,063**	**-**	**-**
Total Plan	**$ 7,547,887**	**$ 7,547,887**	**$ -**	**$ -**

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	$ -	$ -

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, 2015 and 2014 consisted of:

Purpose		**2015**		2014
Child care center programs	**$**	**285,213**	$	176,925
Management and general		**33,750**		48,750
USDA family day homes		**11,710**		903
Training programs		**5,462**		73,443
Total temporary restricted net assets	**$**	**336,135**	$	300,021

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		**2015**		2014
Child care center programs	**$**	**102,559**	$	2,017
Management and general		**15,000**		-
USDA family day homes		**903**		-
Sponsorships to Great Adventure Hunt		**-**		90,167
Training programs		**67,982**		22,645
	$	**186,444**	$	114,829

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 May 6, 2016, 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.