



Clayton Child Care, Inc.

**Financial Statements
with Supplementary Information and Compliance Reports
June 30, 2016 and 2015**

Clayton Child Care, Inc.

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Independent Auditors' Report

Board of Directors
Clayton Child Care, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Clayton Child Care, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

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

An audit 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 Clayton Child Care, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Prior Period Financial Statements

The financial statements of Clayton Child Care, Inc. as of and for the year ended June 30, 2015 were audited by other auditors whose report dated February 22, 2016 expressed an unmodified opinion on those statements.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, such information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of Clayton Child Care, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clayton Child Care, Inc.'s internal control over financial reporting and compliance.



A Limited Liability Partnership

Clayton Child Care, Inc.
Statements of Financial Position
June 30, 2016 and 2015

Assets		
	2016	2015
Current assets:		
Cash and cash equivalents	\$ 1,018,523	\$ 887,888
Accounts receivable, net	368,678	369,820
Prepaid expenses	74,896	71,188
Total current assets	1,462,097	1,328,896
Property and equipment, net	467,435	547,520
Total assets	\$ 1,929,532	\$ 1,876,416

Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 114,808	\$ 142,337
Accrued expenses	155,760	296,215
Notes payable - current	-	9,858
Deferred income	28,623	-
Total current liabilities	299,191	448,410
Unrestricted net assets	1,630,341	1,428,006
Total liabilities and net assets	\$ 1,929,532	\$ 1,876,416

See accompanying notes to financial statements.

Clayton Child Care, Inc.
Statements of Activities
Years Ended June 30, 2016 and 2015

	2016	2015
Revenue and support:		
Child care fees, net	\$ 5,940,034	\$ 5,590,251
Government grants	3,148,555	3,383,651
In-kind contributions	2,400,560	2,463,369
Contributions	16,885	57,563
Special event revenue, net of direct costs totaling \$18,898	-	3,778
Miscellaneous	24,383	24,090
Total revenue and support	11,530,417	11,522,702
Operating expenses:		
Program	10,279,790	10,685,067
Administrative	979,089	1,092,556
Fundraising	112,644	36,458
Total operating expenses	11,371,523	11,814,081
Excess (deficit) of revenue and support over operating expenses	158,894	(291,379)
Non-operating gains and other income:		
Gain on involuntary conversion	43,136	-
Interest income	305	736
Total non-operating gains and other income	43,441	736
Change in net assets	202,335	(290,643)
Net assets at beginning of year	1,428,006	1,718,649
Net assets at end of year	\$ 1,630,341	\$ 1,428,006

See accompanying notes to financial statements.

Clayton Child Care, Inc.
Statement of Functional Expenses
Year Ended June 30, 2016

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 5,331,167	\$ 743,454	\$ 89,982	\$ 6,164,603
Professional fees and contracted services	615,082	52,367	-	667,449
Service fees	219,222	18,525	4,515	242,262
Supplies and materials	18,007	9,399	2,291	29,697
Occupancy	678,713	44,822	7,339	730,874
Travel and transportation	135,725	7,414	1,875	145,014
Conferences and staff development	74,203	4,069	992	79,264
Program activities and supplies	686,790	-	-	686,790
Marketing and recruitment	4,078	41,588	495	46,161
Equipment	40,409	22,823	5,155	68,387
Insurance	54,839	6,349	-	61,188
Depreciation	-	24,896	-	24,896
Other	20,995	3,383	-	24,378
Total expenses before in-kind expenses	<u>7,879,230</u>	<u>979,089</u>	<u>112,644</u>	<u>8,970,963</u>
In-kind expenses	<u>2,400,560</u>	<u>-</u>	<u>-</u>	<u>2,400,560</u>
Total expenses	<u><u>\$10,279,790</u></u>	<u><u>\$ 979,089</u></u>	<u><u>\$ 112,644</u></u>	<u><u>\$11,371,523</u></u>

See accompanying notes to financial statements.

Clayton Child Care, Inc.
Statement of Functional Expenses
Year Ended June 30, 2015

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 5,598,973	\$ 701,456	\$ 31,829	\$ 6,332,258
Professional fees and contracted services	539,086	102,964	-	642,050
Service fees	130,464	62,287	-	192,751
Supplies and materials	10,852	37,566	-	48,418
Occupancy	655,770	66,653	-	722,423
Travel and transportation	155,654	1,643	-	157,297
Conferences and staff development	87,126	7,752	-	94,878
Program activities and supplies	789,049	-	-	789,049
Marketing and recruitment	50,596	17,004	-	67,600
Equipment	114,163	29,644	4,629	148,436
Insurance	38,528	312	-	38,840
Depreciation	16,618	35,050	-	51,668
Other	34,819	30,225	-	65,044
Total expenses before in-kind expenses	8,221,698	1,092,556	36,458	9,350,712
In-kind expenses	2,463,369	-	-	2,463,369
Total expenses	<u>\$10,685,067</u>	<u>\$ 1,092,556</u>	<u>\$ 36,458</u>	<u>\$11,814,081</u>

See accompanying notes to financial statements.

Clayton Child Care, Inc.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 202,335	\$ (290,643)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	24,896	51,668
Bad debt	-	6,000
Loss on disposal of property and equipment	3,325	35,488
Gain on involuntary conversion	(43,136)	-
Changes in assets and liabilities:		
Accounts receivable	1,142	45,111
Prepaid expenses	(3,708)	(33,453)
Accounts payable	(27,529)	(29,007)
Accrued expenses	(140,455)	(30,892)
Deferred income	28,623	-
Net cash provided (used) by operating activities	45,493	(245,728)
Cash flows from investing activities:		
Purchase of property and equipment	-	(3,612)
Proceeds from insurance for involuntary conversion	95,000	-
Net cash provided (used) by investing activities	95,000	(3,612)
Cash flows from financing activities:		
Proceeds from line of credit	100,000	34,431
Repayment of line of credit	(100,000)	-
Repayment of note payable	(9,858)	(41,241)
Net cash used by financing activities	(9,858)	(6,810)
Net increase (decrease) in cash and cash equivalents	130,635	(256,150)
Cash and cash equivalents at beginning of year	887,888	1,144,038
Cash and cash equivalents at end of year	\$ 1,018,523	\$ 887,888
Supplemental cash flow information - cash paid during the year for interest	\$ 538	\$ -

See accompanying notes to financial statements.

Clayton Child Care, Inc.
Notes to Financial Statements

1. Organization

Clayton Child Care, Inc. d.b.a. Clayton Youth Enrichment Services (Organization) is a nonprofit organization established in 1975 to provide programs for children, primarily before and after school on site at school campuses. The Organization also provides full day care at school sites during school breaks to school age children and care at country clubs for infants to 12 year olds. Programs are licensed by the Texas Department of Family and Protective Services or regulated by the Texas Education Agency. Currently, approximately 60% of the Organization's revenue is received from parent fees and approximately 40% is received from local school districts, other governmental type organizations, private donors, foundations and federal grants.

2. Summary of Significant Accounting Policies

The accounting policies of the Organization conform to U.S. generally accepted accounting principles (GAAP) as applicable to voluntary health and welfare organizations. The more significant accounting policies of the Organization are described below.

Basis of Accounting

The Organization prepares the financial statements on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded as incurred.

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time. The Organization did not have any temporarily restricted net assets as of June 30, 2016 or 2015.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purpose. The Organization did not have any permanently restricted net assets as of June 30, 2016 or 2015.

Clayton Child Care, Inc.
Notes to Financial Statements

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization chooses to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. Accounts receivable are unsecured and are due from various government agencies, local school districts and country clubs. The Organization continually evaluates the collectability of accounts receivable and maintains allowances for potential losses, if considered necessary.

The Organization maintains cash balances at various financial institutions located in Texas. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016, the Organization's uninsured balances totaled \$510,490.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with a maturity of three months or less when purchased.

Concentrations

As of June 30, 2016, approximately 19% of accounts receivable was due from the insurance company. As of June 30, 2016 and 2015, approximately 41% and 48%, respectively, of the Organization's accounts receivable were due from one federal pass-through grantor agency. This grant, including in-kind revenue related directly to the grant, also comprised approximately 30% and 38% of the Organization's revenue for the years ended June 30, 2016 and 2015, respectively.

Property and Equipment

Property and equipment purchased by the Organization is recorded at cost or if acquired by gift, fair market value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000; the fair value of donated fixed assets is similarly capitalized. Depreciation is calculated using the straight-line method based upon the estimated useful lives of 30 years for buildings and improvements, 3 to 5 years for vehicles, and 3 to 10 years for office and computer equipment.

Clayton Child Care, Inc.
Notes to Financial Statements

Revenue Recognition

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Government grant revenue is recognized as contract terms are fulfilled. Cost reimbursement contracts are recognized as revenue when the allowable costs are incurred. Fees for contract services are recognized as revenue when the contracted services are performed.

Donated food supplies and building usage are reflected as contributions at their estimated fair values at date of receipt. The Organization recognizes contribution revenue for certain services received at the fair value of those services, provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Grants and Contracts

The Organization receives grants and contracts from federal and state agencies, as well as private organizations, to be used for specific programs. For government grants and contracts, the excess of reimbursable expenditures over cash receipts is included in accounts receivable.

The Organization's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the financial position or changes in net assets of the Organization.

Marketing and Advertising Costs

Marketing and advertising costs are expensed as incurred. During the years ended June 30, 2016 and 2015, marketing and advertising expenses were \$28,840 and \$42,667, respectively.

Federal Income Taxes

The Organization is recognized by the Internal Revenue Service as exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (IRC) and is not a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization did not have a material unrelated business income tax liability as of June 30, 2016 and 2015. Therefore, no tax provision or liability has been reported in the accompanying financial statements. The Organization had no significant uncertain tax positions for the years ended June 30, 2016 and 2015.

Clayton Child Care, Inc.
Notes to Financial Statements

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax returns and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2016 and 2015, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Allocation of Functional Expenses

The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various functions.

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Reclassifications

Certain amounts in the financial statements for the year ended June 30, 2015 have been reclassified to conform to the financial statements for the year ended June 30, 2016.

3. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 136,648	\$ 136,648
Building and improvements	501,785	580,313
Office and computer equipment	227,197	404,961
Vehicles	<u>23,270</u>	<u>23,270</u>
	888,900	1,145,192
Less accumulated depreciation	<u>(421,465)</u>	<u>(597,672)</u>
Property and equipment, net	<u>\$ 467,435</u>	<u>\$ 547,520</u>

Clayton Child Care, Inc.
Notes to Financial Statements

During the year ended June 30, 2016 the Organization's administrative building's roof was damaged by a storm and the Organization received \$95,000 in insurance proceeds resulting in a gain on involuntary conversion of \$43,136.

4. In-Kind Contributions

In-kind contributions to the Organization during the years ending June 30, 2016 and 2015 were primarily to supplement the 21st Century Community Learning Centers Cycle 7 Grant and provide a local match of the funds. The related expenses were as follows for the year ended June 30:

	<u>2016</u>	<u>2015</u>
Services and labor - partner organizations	\$ 336,100	\$ 587,685
Building usage from local education agencies	1,433,677	1,425,715
Food supplies	<u>630,783</u>	<u>449,969</u>
	<u>\$ 2,400,560</u>	<u>\$ 2,463,369</u>

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance to programs, campaign solicitations, and various committee assignments. No amounts have been reflected in the accompanying financial statements for these types of donated services, as they do not meet the criteria for recognition.

5. Lease commitments

The Organization leases office space and equipment for use in its operations under non-cancellable operating leases expiring through 2016. Future minimum lease payments under operating lease agreements for the year ended June 30, 2017 total \$689,717.

6. Defined Contribution Retirement Plan

The Organization maintains a defined contribution retirement plan provided for employees meeting certain minimum eligibility requirements. Employees may contribute a portion of their earnings to this plan with the Organization making a matching contribution or profit sharing contribution to the plan. During the years ended June 30, 2016 and 2015, the Organization contributed an amount equal to 100% of the first 2% and 3%, respectively, of the participating employees' pretax contribution. Employer accrued contributions as of June 30, 2016 and 2015 were \$21,275 and \$36,552, respectively. Total retirement plan expense, including plan administration, for the years ended June 30, 2016 and 2015 was \$11,668 and \$36,777, respectively.

Clayton Child Care, Inc.
Notes to Financial Statements

7. Notes Payable and Line of Credit

As of June 30, 2015, the Organization was obligated on a note payable to First Insurance Funding with an outstanding balance of \$7,986. This note is unsecured and payable in monthly, principal-only installments of \$2,662. The Organization also has an unsecured note payable to ADP with an outstanding balance of \$1,872 at June 30, 2015. Principal-only payments in the amount of \$374 are due monthly.

The Organization maintains a line of credit with Frost Bank which has a maximum available amount of \$500,000. Interest is payable monthly at prime plus 1.25%. The line of credit is secured by all real and personal property of Clayton Child Care, Inc. There was no outstanding amount on the line of credit as of June 30, 2016 or 2015. The line of credit matured on May 25, 2016 and was not renewed.

8. Subsequent Events

The Organization evaluated subsequent events after the statement of financial position date of June 30, 2016 through October 24, 2016, which was the date the financial statements were available to be issued, and concluded that no additional disclosures are required.

Clayton Child Care, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA#</u>	<u>Grant #</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development:			
City of Fort Worth			
Community Development Block Grant	14.228	47284	\$ 36,917
Total U.S. Department of Housing and Urban Development			<u>36,917</u>
U.S. Department of Education:			
Texas Education Agency			
21st Century Community Learning Centers	84.287C	156950167110012	106,391
21st Century Community Learning Centers	84.287C	166950167110012	<u>1,725,992</u>
Total U.S. Department of Education			<u>1,832,383</u>
Total Federal Awards			<u><u>\$1,869,300</u></u>

See notes to schedule of expenditures of federal awards.

Clayton Child Care, Inc.
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Clayton Child Care, Inc. (Organization) and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

- Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- The Organization has not elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**Report of Independent Auditors on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Directors
Clayton Child Care, Inc.

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clayton Child Care, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clayton Child Care, Inc.'s (Organization) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2016-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item (2016-002).

Responses to Findings

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



A Limited Liability Partnership
Certified Public Accountants

Arlington, Texas
October 24, 2016

Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Clayton Child Care, Inc.

Report on Compliance for Each Major Federal Program

We have audited Clayton Child Care, Inc.'s (Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Basis for Qualified Opinion

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements the CFDA 84.287C Twenty-First Century Community Learning Centers Program as described in finding number 2016-002 for Special Tests and Provisions.

Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the CFDA 84.287C Twenty-First Century Community Learning Centers Program for the year ended June 30, 2016.

Responses to Findings

The Organization's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-002 that we that we consider to be a material weakness.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompany schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



A Limited Liability Partnership
Certified Public Accountants

Arlington, Texas
October 24, 2016

Clayton Child Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued:	Unmodified	
Internal control over financial reporting:		
• Material weaknesses identified?	_____ yes	___X___ no
• Significant deficiencies identified?	___X___ yes	_____ none reported
Noncompliance material to financial statements noted?	___X___ yes	_____ no

Federal Awards

Internal control over major programs:		
• Material weaknesses identified?	___X___ yes	_____ no
• Significant deficiencies identified?	_____ yes	___X___ none reported
Type of auditors’ report issued on compliance for major programs:	Qualified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	___X___ yes	_____ no

Identification of major federal program:

CFDA 84.287 21st Century Community Learning Centers

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	___X___ yes _____ no

Clayton Child Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section II – Financial Statement Findings

Significant Deficiency

2016-001 Disbursements

Criteria: Internal controls surrounding credit card purchases including the requirement for a receipt to be submitted supporting all credit card charges should be followed.

Condition: Not all credit card transactions are supported by receipts.

Cause: Procedures in place to ensure support for all credit card purchases were not followed.

Effect: Because of the failure to obtain receipts for all credit card purchases, management may not be able to ensure the appropriateness of the charge.

Recommendation: Credit card procedures requiring receipts for all credit card charges should be followed.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding and realized it was an issue during the course of the fiscal year. We implemented new procedures that include a more rigid process and stronger consequences when credit card receipts are not submitted. Expenses that did not have receipt support were not charged to or reimbursed by grant funds.

Section III – Federal Award Findings and Questioned Costs

U.S. Department of Education
CFDA 84.287 21st Century Community Learning Centers

2016-002

Criteria: As indicated in the notice of grant award, Section 22.0834 of the Texas Education Code, any person offered employment by an entity that contracts with the Texas Education Agency (TEA) or receives grant funds administered by TEA is subject to a fingerprinting requirement as described in TEA's General and Fiscal Guidelines.

Condition: Clayton Child Care, Inc. (Organization) did not have the required fingerprinting control procedures in place and fingerprinting procedures were not performed on persons covered under this contract.

Questioned Costs: None

Clayton Child Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Effect: Persons employed by the Organization and working with children were not subjected to the required fingerprinting procedures.

Cause: Personnel at the Organization were unaware of this requirement, and the Organization did not have policies and procedure in place to ensure that the fingerprinting requirement was met.

Auditor Recommendation: We recommend the Organization develop written policies and procedures to ensure the fingerprinting requirement is met.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding. A thorough review of employee records was conducted immediately upon discovery of the finding in order to determine which employees were subject to the fingerprinting requirement. Policies were revised and implemented, and fingerprinting of affected employees began forthwith.

Clayton Child Care, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

None.