



Clayton Child Care, Inc.

**Financial Statements with Supplementary Information
and Compliance Reports
June 30, 2018 and 2017**

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 statements of financial position as of June 30, 2018 and 2017, 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 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 audits. We conducted our audits 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 audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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 September 28, 2018 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

Arlington, Texas
September 28, 2018

Clayton Child Care, Inc.
Statements of Financial Position
June 30, 2018 and 2017

Assets		
	2018	2017
Current assets:		
Cash and cash equivalents	\$ 1,156,210	\$ 1,294,026
Accounts receivable	603,731	262,320
Prepaid expenses	58,053	86,919
Total current assets	1,817,994	1,643,265
Property and equipment, net	632,815	581,540
Total assets	\$ 2,450,809	\$ 2,224,805

Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 139,804	\$ 237,324
Accrued expenses	362,701	324,920
Deferred revenue	46,007	52,969
Total current liabilities	548,512	615,213
Unrestricted net assets	1,895,297	1,609,592
Temporarily restricted net assets	7,000	-
Total net assets	1,902,297	1,609,592
Total liabilities and net assets	\$ 2,450,809	\$ 2,224,805

See notes to financial statements.

Clayton Child Care, Inc.
Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Child care fees, net	\$ 7,164,971	\$ -	\$ 7,164,971
Government grants	3,857,187	-	3,857,187
In-kind contributions	4,138,748	-	4,138,748
Contributions	134,315	7,000	141,315
Miscellaneous	19,312	-	19,312
Total revenue and support	15,314,533	7,000	15,321,533
Operating expenses:			
Program	13,905,235	-	13,905,235
Administrative	1,049,877	-	1,049,877
Fundraising	75,427	-	75,427
Total operating expenses	15,030,539	-	15,030,539
Excess of revenue and support over operating expenses	283,994	7,000	290,994
Other income:			
Interest income	1,711	-	1,711
Total other income	1,711	-	1,711
Change in net assets	285,705	7,000	292,705
Net assets at beginning of year	1,609,592	-	1,609,592
Net assets at end of year	\$ 1,895,297	\$ 7,000	\$ 1,902,297

See notes to financial statements.

Clayton Child Care, Inc.
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Child care fees, net	\$ 6,514,625	\$ -	\$ 6,514,625
Government grants	3,276,043	-	3,276,043
In-kind contributions	2,112,946	-	2,112,946
Contributions	74,667	-	74,667
Miscellaneous	20,255	-	20,255
Total revenue and support	11,998,536	-	11,998,536
Operating expenses:			
Program	11,418,051	-	11,418,051
Administrative	471,039	-	471,039
Fundraising	130,423	-	130,423
Total operating expenses	12,019,513	-	12,019,513
Deficit of revenue and support over operating expenses	(20,977)	-	(20,977)
Other income:			
Interest income	228	-	228
Total other income	228	-	228
Change in net assets	(20,749)	-	(20,749)
Net assets at beginning of year	1,630,341	-	1,630,341
Net assets at end of year	\$ 1,609,592	\$ -	\$ 1,609,592

See notes to financial statements.

Clayton Child Care, Inc.
Statement of Functional Expenses
Year Ended June 30, 2018

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 6,756,368	\$ 782,983	\$ 70,579	\$ 7,609,930
Professional fees and contracted services	964,850	35,942	-	1,000,792
Service fees	214,975	1,031	10	216,016
Supplies and materials	92,098	55,612	3,333	151,043
Occupancy	709,311	65,641	722	775,674
Travel and transportation	135,819	5,969	377	142,165
Conferences and staff development	62,462	1,083	-	63,545
Program activities and supplies	674,247	1,289	-	675,536
Marketing and recruitment	11,658	55,951	-	67,609
Insurance	129,448	13,916	406	143,770
Depreciation	-	24,849	-	24,849
Other	15,251	5,611	-	20,862
Total expenses before in-kind expenses	9,766,487	1,049,877	75,427	10,891,791
In-kind expenses	4,138,748	-	-	4,138,748
Total expenses	<u>\$13,905,235</u>	<u>\$ 1,049,877</u>	<u>\$ 75,427</u>	<u>\$15,030,539</u>

See notes to financial statements.

Clayton Child Care, Inc.
Statement of Functional Expenses
Year Ended June 30, 2017

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 6,289,136	\$ 336,881	\$ 118,366	\$ 6,744,383
Professional fees and contracted services	1,068,211	8,192	1,544	1,077,947
Service fees	329,528	15,779	3,298	348,605
Supplies and materials	132,836	27,059	4,945	164,840
Occupancy	566,878	51,522	17	618,417
Travel and transportation	72,319	1,996	1,117	75,432
Conferences and staff development	87,130	43	8	87,181
Program activities and supplies	587,287	-	-	587,287
Marketing and recruitment	60,025	61	726	60,812
Insurance	82,444	23,948	342	106,734
Depreciation	18,645	4,956	-	23,601
Other	10,666	602	60	11,328
Total expenses before in-kind expenses	9,305,105	471,039	130,423	9,906,567
In-kind expenses	2,112,946	-	-	2,112,946
Total expenses	<u>\$11,418,051</u>	<u>\$ 471,039</u>	<u>\$ 130,423</u>	<u>\$12,019,513</u>

See notes to financial statements.

Clayton Child Care, Inc.
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 292,705	\$ (20,749)
Adjustments to reconcile change in net assets to net cash provided by (used) operating activities:		
Depreciation	24,849	23,601
Changes in assets and liabilities:		
Accounts receivable	(341,411)	106,358
Prepaid expenses	28,866	(12,023)
Accounts payable	(97,520)	122,516
Accrued expenses	37,781	169,160
Deferred revenue	<u>(6,962)</u>	<u>24,346</u>
Net cash provided (used) by operating activities	(61,692)	413,209
Cash flows from investing activities:		
Purchases of property and equipment	<u>(76,124)</u>	<u>(137,706)</u>
Net cash used by investing activities	(76,124)	(137,706)
Net increase (decrease) in cash and cash equivalents	(137,816)	275,503
Cash and cash equivalents at beginning of year	<u>1,294,026</u>	<u>1,018,523</u>
Cash and cash equivalents at end of year	<u>\$ 1,156,210</u>	<u>\$ 1,294,026</u>

See 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 50% of the Organization's revenue is received from parent fees and approximately 50% 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.

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, 2018 or 2017.

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, 2018, the Organization's uninsured balances totaled \$954,902.

Concentrations

As of June 30, 2018 and 2017, approximately 32% and 58%, 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 20% and 23% of the Organization's revenue for the years ended June 30, 2018 and 2017, respectively. Additionally, as of June 30, 2018, approximately 53% of the Organization's accounts receivable were due from one organization.

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.

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 to 39 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

Deferred Revenue

Deferred revenue represents child care fees received in advance.

Revenue Recognition

Child care fees are recognized as services are performed and are recorded net of discounts and scholarships.

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.

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.

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, 2018 and 2017, marketing and advertising expenses were \$109,431 and \$33,493, respectively. For the year ended June 30, 2018, \$60,000 of advertising expenses were included in in-kind expenses.

Clayton Child Care, Inc.

Notes to Financial Statements

Federal Income Taxes

The Organization is recognized by the Internal Revenue Service (IRS) 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, 2018 and 2017. 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, 2018 and 2017.

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 IRS. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2018 and 2017, 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.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification.

The Organization considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Organization's financial position and results of operations.

Clayton Child Care, Inc.

Notes to Financial Statements

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers, which will supersede nearly all existing revenue recognition guidance under GAAP. The core principal of the new guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The original guidance has been amended through subsequent accounting standard updates that resulted in technical corrections, improvements, and a one-year deferral of the effective date to January 1, 2018 for public entities and January 1, 2019 for all other entities. Entities can elect to adopt the guidance either on a full or modified retrospective basis. Full retrospective adoption will require a cumulative effect adjustment to net assets as of the beginning of the earliest comparative period presented. Modified retrospective adoption will require a cumulative effect adjustment to net assets as of the beginning of the reporting period in which the entity first applies the new guidance. The Organization is currently assessing the impact that adopting this new guidance will have on the Organization's financial statements.

In February 2016, the FASB issued new accounting guidance related to leases, which requires that the Organization recognize the assets and liabilities for the rights and obligations created by leased assets. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 for public companies and December 15, 2019 for all other entities. The Organization is currently assessing the impact that adopting this new guidance will have on the Organization's financial statements.

In August 2016, the FASB issued new accounting guidance on the presentation of financial statements for not-for-profit entities. The objective of this ASU is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit's liquidity, financial performance, and cash flows. The key provisions include net asset classes, investment return, expenses, liquidity and availability of resources, and statement of cash flows. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. Early application of the amendments is permitted.

Clayton Child Care, Inc.
Notes to Financial Statements

3. Property and Equipment

Property and equipment consist of the following at June 30:

	2018	2017
Land	\$ 136,648	\$ 136,648
Building and improvements	708,640	639,490
Office and computer equipment	75,192	195,290
Vehicles	23,270	23,270
	943,750	994,698
Less accumulated depreciation	(310,935)	(413,158)
Property and equipment, net	\$ 632,815	\$ 581,540

4. In-Kind Contributions

In-kind contributions to the Organization were primarily to supplement and provide a local match of the funds provided by the 21st Century Community Learning Centers Cycle 9 and Cycle 7 Grants during the years ended June 30, 2018 and 2017, respectively. The related expenses were as follows for the years ended June 30:

	2018	2017
Services and labor - partner organizations	\$ 510	\$ 765
Building usage from local education agencies	2,702,384	1,251,345
Food supplies	1,370,107	860,836
Other supplies	5,323	-
Other services	424	-
Advertising	60,000	-
	\$ 4,138,748	\$ 2,112,946

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 2020. Future minimum lease payments under operating lease agreements for the years ending June 30 are as follows:

2019	\$ 33,534
2020	1,995

Clayton Child Care, Inc.
Notes to Financial Statements

Expenses incurred under these agreements totaled \$613,646 and \$627,111 for the years ended June 30, 2018 and 2017, respectively.

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. The Organization contributed an amount equal to 100% of the employee's pretax contributions up to a maximum of 4% and 2% of the employee's eligible wages for the years ended June 30, 2018 and 2017, respectively. Employer accrued contributions as of June 30, 2018 and 2017 were \$36,487 and \$22,772, respectively. Total retirement plan expense, including plan administration, for the years ended June 30, 2018 and 2017 was \$38,117 and \$22,772, respectively.

7. Subsequent Events

The Organization evaluated subsequent events after the statement of financial position date of June 30, 2018 through the date the financial statements were available to be issued, and concluded that no additional disclosures are required, other than those noted below.

The Texas Education Agency Cycle 9 funding is ending July 31, 2019 and will not be renewed. Cycle 9 revenue, including in-kind revenue related to the grant, accounted for 20% and 23% of total revenue for the years ended June 30, 2018 and 2017, respectively. The Organization expects revenue and expenses to decrease as these funded sites will no longer continue to operate.

Clayton Child Care, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA#</u>	<u>Grant #</u>	<u>Expenditures</u>
U.S. Department of Education:			
Texas Education Agency			
21st Century Community Learning Centers	84.287C	176950247110003	\$ 99,061
21st Century Community Learning Centers	84.287C	186950247110003	<u>1,670,630</u>
Total U.S. Department of Education			<u>1,769,691</u>
Total Federal Awards			<u><u>\$1,769,691</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, 2018

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 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, 2018, 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 September 28, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Arlington, Texas
September 28, 2018

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, 2018. The Organization's major federal programs are identified in the summary of auditors' 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.

Opinion on Each Major Federal Program

In our opinion 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 each of its major federal programs for the year ended June 30, 2018.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Arlington, Texas
September 28, 2018

Clayton Child Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) 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? yes no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Clayton Child Care, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

None.