



Clayton Child Care, Inc.

**Financial Statements with Supplementary Information
and Compliance Reports
June 30, 2021 and 2020**

Clayton Child Care, Inc.

Contents

Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information:	
Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards	22
Compliance Reports:	
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 <i>Government Auditing Standards</i>	23
Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	25
Schedule of Findings and Questioned Costs	27
Summary Schedule of Prior Audit Findings	28

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, 2021 and 2020, 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, 2021 and 2020, 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 February 6, 2022 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
February 6, 2022

Clayton Child Care, Inc.
Statements of Financial Position
June 30, 2021 and 2020

Assets		
	2021	2020
Current assets:		
Cash and cash equivalents	\$ 2,570,837	\$ 2,673,593
Accounts receivable	25,000	31,527
Grants receivable	1,784,483	95,615
Other receivable	290,626	-
Prepaid expenses	53,550	62,960
Total current assets	4,724,496	2,863,695
Property and equipment, net	596,075	611,739
Total assets	\$ 5,320,571	\$ 3,475,434
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 70,897	\$ 57,036
Accrued expenses	364,191	121,970
Deferred revenue	11,219	2,807
Notes payable, current	1,536,928	1,536,500
Total current liabilities	1,983,235	1,718,313
Notes payable, net	1,580,139	150,000
Total liabilities	3,563,374	1,868,313
Net assets:		
Without donor restrictions:		
Undesignated	1,657,197	1,468,121
Board designated	100,000	100,000
With donor restrictions	-	39,000
Total net assets	1,757,197	1,607,121
Total liabilities and net assets	\$ 5,320,571	\$ 3,475,434

See notes to financial statements.

Clayton Child Care, Inc.
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Child care fees, net	\$ 2,672,247	\$ -	\$ 2,672,247
Government grants	4,808,309	-	4,808,309
In-kind contributions	880,794	-	880,794
Contributions	292,957	-	292,957
Miscellaneous	337,392	-	337,392
Net assets released from restrictions	39,000	(39,000)	-
Total revenue and support	9,030,699	(39,000)	8,991,699
Operating expenses:			
Program	7,724,776	-	7,724,776
Administrative	1,017,711	-	1,017,711
Fundraising	99,507	-	99,507
Total operating expenses	8,841,994	-	8,841,994
Excess (deficit) of revenue and support over operating expenses	188,705	(39,000)	149,705
Other income:			
Interest income	371	-	371
Total other income	371	-	371
Change in net assets	189,076	(39,000)	150,076
Net assets at beginning of year	1,568,121	39,000	1,607,121
Net assets at end of year	\$ 1,757,197	\$ -	\$ 1,757,197

See notes to financial statements.

Clayton Child Care, Inc.
Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Child care fees, net	\$ 5,683,756	\$ -	\$ 5,683,756
Government grants	2,036,231	-	2,036,231
In-kind contributions	1,863,104	-	1,863,104
Contributions	315,374	39,000	354,374
Miscellaneous	2,784	-	2,784
Net assets released from restrictions	256,140	(256,140)	-
Total revenue and support	10,157,389	(217,140)	9,940,249
Operating expenses:			
Program	9,450,037	-	9,450,037
Administrative	1,077,923	-	1,077,923
Fundraising	55,069	-	55,069
Total operating expenses	10,583,029	-	10,583,029
Deficit of revenue and support over operating expenses	(425,640)	(217,140)	(642,780)
Other income:			
Interest income	8,620	-	8,620
Total other income	8,620	-	8,620
Change in net assets	(417,020)	(217,140)	(634,160)
Net assets at beginning of year	1,985,141	256,140	2,241,281
Net assets at end of year	\$ 1,568,121	\$ 39,000	\$ 1,607,121

See notes to financial statements.

Clayton Child Care, Inc.
Statement of Functional Expenses
Year Ended June 30, 2021

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 4,679,081	\$ 673,808	\$ 95,744	\$ 5,448,633
Professional fees and contracted services	494,475	40,980	-	535,455
Service fees	141,294	5,490	215	146,999
Supplies and materials	25,049	108,665	1,253	134,967
Occupancy	310,902	67,429	74	378,405
Travel and transportation	22,459	1,476	-	23,935
Conferences and staff development	2,739	110	-	2,849
Program activities and supplies	1,014,932	161	-	1,015,093
Marketing and recruitment	9,096	19,135	200	28,431
Insurance	116,981	33,015	1,851	151,847
Depreciation	-	33,922	-	33,922
Other	26,974	33,520	170	60,664
Total expenses before in-kind expenses	6,843,982	1,017,711	99,507	7,961,200
In-kind expenses	880,794	-	-	880,794
Total expenses	<u>\$ 7,724,776</u>	<u>\$ 1,017,711</u>	<u>\$ 99,507</u>	<u>\$ 8,841,994</u>

See notes to financial statements.

Clayton Child Care, Inc.
Statement of Functional Expenses
Year Ended June 30, 2020

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 5,510,540	\$ 696,280	\$ 51,585	\$ 6,258,405
Professional fees and contracted services	442,054	35,733	-	477,787
Service fees	222,642	6,504	201	229,347
Supplies and materials	21,960	123,108	1,251	146,319
Occupancy	551,550	58,371	212	610,133
Travel and transportation	86,585	3,998	67	90,650
Conferences and staff development	109,849	396	107	110,352
Program activities and supplies	505,926	-	-	505,926
Marketing and recruitment	5,790	40,593	-	46,383
Insurance	108,980	66,236	1,646	176,862
Depreciation	-	33,922	-	33,922
Other	21,057	12,782	-	33,839
Total expenses before in-kind expenses	7,586,933	1,077,923	55,069	8,719,925
In-kind expenses	1,863,104	-	-	1,863,104
Total expenses	\$ 9,450,037	\$ 1,077,923	\$ 55,069	\$ 10,583,029

See notes to financial statements.

Clayton Child Care, Inc.
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 150,076	\$ (634,160)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	33,922	33,922
Changes in assets and liabilities:		
Accounts receivable	6,527	44,135
Grants receivable	(1,688,868)	149,844
Other receivable	(290,626)	-
Pledge receivable	-	202,000
Prepaid expenses	9,410	17,722
Accounts payable	13,861	(103,335)
Accrued expenses	242,221	(208,448)
Deferred revenue	8,412	(28,518)
Net cash used by operating activities	(1,515,065)	(526,838)
Cash flows from investing activities-		
Purchases of property and equipment	(18,258)	-
Net cash used by investing activities	(18,258)	-
Cash flows from financing activities-		
Proceeds from notes payable	1,431,400	1,686,500
Payments on notes payable	(833)	-
Net cash provided by financing activities	1,430,567	1,686,500
Net increase (decrease) in cash and cash equivalents	(102,756)	1,159,662
Cash and cash equivalents at beginning of year	2,673,593	1,513,931
Cash and cash equivalents at end of year	\$ 2,570,837	\$ 2,673,593

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-aged 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. The Organization's revenue is received from parent fees, 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.

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:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a board of directors approved spending policy. The Organization did not have any such net assets as of June 30, 2021 or 2020.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in

Clayton Child Care, Inc.

Notes to Financial Statements

net assets without donor restrictions. Gains and losses on other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of 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 contributions without donor restrictions.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, grants and accounts receivable. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. Grants and accounts receivable are unsecured and are due from various government agencies, local school districts, country clubs and other nonprofit organizations. The Organization continually evaluates the collectability of accounts and grants 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, 2021, the Organization's uninsured balances totaled \$2,271,826.

Concentrations

As of June 30, 2021 approximately 71% of accounts receivable was due from two organizations. As of June 30, 2020 approximately 73% of accounts receivable was due from three organizations. As of June 30, 2021, approximately 92% of grants receivable was due from three grantors. As of June 30, 2020, approximately 85% of grants receivable was due from three donors or grantors. Two federal pass through grantor agencies comprised approximately 40% of the Organization's revenues for the year ended June 30, 2021. One federal pass-through grantor agency comprised approximately 12% of the Organization's revenue for the year ended June 30, 2020.

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

Clayton Child Care, Inc.

Notes to Financial Statements

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.

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.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position.

As of June 30, 2021, the Organization has approximately \$351,000 of conditional grants from various government agencies. The grants will be recognized as revenue when the conditions, which include performance of allowable activities and incurring allowable expenses, are met. As of June 30, 2020, the Organization had approximately \$876,000 of conditional grants from various government agencies, of which approximately \$863,000 was recognized as revenue in the year ended June 30, 2021.

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 general operating 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 grants receivable.

Clayton Child Care, Inc.

Notes to Financial Statements

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, 2021 and 2020, marketing and advertising expenses were \$18,518 and \$28,678, respectively.

Employee Retention Credit

During the year ended June 30, 2021 the Organization was eligible to receive the Employee Retention Credit pursuant to the Coronavirus Aid, Relief and Economic Security Act of 2020 (CARES Act). In accordance with this, miscellaneous income and an other receivable totaling \$290,626 have been included in the accompanying 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, 2021 and 2020. 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, 2021 and 2020.

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, 2021 and 2020, 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 financial statements. Accordingly, certain costs have been allocated among the various functions. The Organization uses direct allocation of expenses based on direct usage for a majority of its expenses. The remaining expenses related to payroll, related costs, professional fees and contracted services are allocated on the basis of time and effort. The remaining expenses related to insurance and occupancy are allocated based on a ratio of the number of program activities at the various locations.

Clayton Child Care, Inc.

Notes to Financial Statements

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 (ASUs) to the FASB's Accounting Standards Codification.

The Organization considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Organizations' financial position and changes in net assets.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. The standard takes effect for fiscal years beginning after December 15, 2021.

In 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, in an effort to increase transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this ASU address stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. The ASU requires NFPs to present contributed nonfinancial assets (gifts in kind) as a separate line item in the statement of activities.

The ASU requires additional footnote disclosures that include:

- Disaggregation of gifts-in-kind by asset category and corresponding asset value,
- whether the asset was monetized or used,
- if used, a description of the programs or services that used the asset,
- if monetized, information about the reporting entity's monetization policy,
- the valuation techniques used to value the asset, including the principal market used to arrive at a fair value measure, and
- a description of any donor-imposed restrictions

Clayton Child Care, Inc.
Notes to Financial Statements

The FASB ASU requires the new standard to be applied retrospectively, with amendments taking effect for annual reporting periods beginning after June 15, 2021. The ASU does allow for early adoption. The Organization has not chosen to early adopt this ASU.

The Organization is currently assessing the impact that adopting this guidance will have on the financial statements.

3. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 136,648	\$ 136,648
Building and improvements	719,836	719,836
Office and computer equipment	104,692	104,692
Construction in progress	18,258	-
Vehicles	<u>-</u>	<u>23,271</u>
	979,434	984,447
Less accumulated depreciation	<u>(383,359)</u>	<u>(372,708)</u>
Property and equipment, net	<u>\$ 596,075</u>	<u>\$ 611,739</u>

4. Net Assets Without Donor Restrictions

Net assets without donor restrictions as of June 30, 2021 and 2020 include \$100,000 in net assets designated by the board of directors for special projects.

5. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2020:

Social Emotional Learning Programs	\$ 14,000
Time restricted	<u>25,000</u>
Total net assets with donor restrictions	<u>\$ 39,000</u>

Clayton Child Care, Inc.
Notes to Financial Statements

6. Notes Payable

EIDL Note

On May 28, 2020, the Organization received \$150,000 in loan funding from the Small Business Administration (SBA) under the Economic Injury Disaster Loan (EIDL) program administered by the SBA, which was expanded pursuant to the CARES Act. The EIDL is evidenced by a promissory note, dated May 28, 2020 (EIDL Note) in the original principal amount of \$150,000 with the SBA, the lender.

Under the terms of the EIDL Note, interest accrues on the outstanding principal at the rate of 2.75% per annum. The term of the EIDL Note is 30 years, though it may be payable sooner upon an event of default under the EIDL Note. Under the EIDL Note, the Organization will be obligated to make equal monthly payments of \$641 through the maturity date of May 28, 2050. Payments are first applied to accrued interest. The EIDL Note may be prepaid in part or in full, at any time, without penalty and is collateralized by the Organization's bank deposits, accounts receivable and equipment.

Maturities of the EIDL Note are as follows for the years ending June 30:

2022	\$	428
2023		2,764
2024		2,809
2025		3,803
2026		3,909
Thereafter		<u>135,454</u>
	\$	<u>149,167</u>

Paycheck Protection Program Loan

On April 15, 2020, the Organization entered into an unsecured loan (PPP Loan) in the aggregate amount of \$1,536,500 with a bank pursuant to the Paycheck Protection Program (PPP), which is sponsored by the SBA, and is part of the CARES Act, as amended by the Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act). The PPP Loan matures on April 15, 2022, bears interest at a fixed rate of 1% per annum and is payable in monthly installments commencing on the date on which the amount of loan forgiveness is determined. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The PPP Loan, and accrued interest, may be forgiven partially or in full, if certain conditions are met.

In order to obtain forgiveness of the PPP Loan, in whole or in part, the Organization must request forgiveness and provide satisfactory documentation in accordance with applicable SBA

Clayton Child Care, Inc.
Notes to Financial Statements

guidelines. Any portion of the PPP Loan that is not forgiven, together with accrued interest, will be repaid based on the terms and conditions of the PPP Loan and in accordance with the PPP as amended by the Flexibility Act. On December 7, 2021, a portion of the loan totaling \$1,358,647 was forgiven by the SBA. The remaining balance of \$177,853 will be repaid in accordance with the terms of the agreement.

On January 21, 2021, the Organization received \$1,431,400 under the second iteration of the PPP, which has similar terms as the original and matures on January 26, 2026. The Organization has chosen to show these loan proceeds as debt until forgiveness is received. Management believes there will be forgiveness of most of the loan balance and any unforgiven portion is expected to be repaid in accordance with the terms of the agreement.

7. 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 Grants during the years ended June 30, 2021 and 2020. The related expenses were as follows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Building usage from local education agencies	\$ 719,401	\$ 1,285,117
Food supplies	161,393	570,866
Services	-	1,108
Other supplies	-	6,013
	<u>\$ 880,794</u>	<u>\$ 1,863,104</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.

Clayton Child Care, Inc.
Notes to Financial Statements

8. Lease Commitments

The Organization leases program space for use in its operations under cancellable operating leases. The Organization also leases equipment for use in its operations under non-cancellable operating leases expiring through 2025. Future minimum lease payments under the non-cancellable operating lease agreements are as follows for the years ending June 30:

2022	\$	15,916
2023		15,531
2024		15,531
2025		1,294

Expenses incurred under these agreements totaled \$249,365 and \$424,574 for the years ended June 30, 2021 and 2020, respectively.

9. 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 discretionary 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 2% of the employee's eligible wages for the period from January 1, 2020 to June 30, 2020. The Organization contributed an amount equal to 100% of the employee's pretax contribution up to a maximum 6% of the employee's eligible wages for the year ended June 30, 2021. Total retirement plan expense, including plan administration, for the years ended June 30, 2021 and 2020 was \$40,838 and \$8,617, respectively.

Clayton Child Care, Inc.
Notes to Financial Statements

10. Liquidity and Availability of Resources

The Organization's financial assets available within one year at June 30:

	2021	2020
Cash and cash equivalents	\$ 2,570,837	\$ 2,673,593
Accounts receivable	25,000	31,527
Other receivable	290,626	-
Grants receivable	1,784,483	95,615
Total financial assets	4,670,946	2,800,735
Less amounts unavailable for general expenditures within one year, due to:		
Board-designated special projects fund	100,000	100,000
Total financial assets available to meet cash needs for general expenditures within one year	\$ 4,570,946	\$ 2,700,735

The Organization receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures within one year.

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stabilities, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization strives to maintain current financial assets less current liabilities at a minimum of 60 days operating expenses. To achieve these targets, the Organization forecasts its future cash flows and monitors its reserves and liquidity on a monthly basis. In the event the need arises to utilize the board-designated special projects fund for liquidity purposes, the fund could be drawn upon through board resolution. During the years ended June 30, 2021 and 2020, the level of liquidity and reserves was managed within the Organization's policy requirements.

11. Uncertainty

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. As a result of the spread of COVID-19, the state of Texas issued shelter-in-place orders and other measures around public gatherings and business operations to slow the spread of the virus. Furthermore, schools in the area served by the Organization took unprecedented action to protect the health and safety of students, suspending in-person classes through the end of the academic term. In addition, the start of the fall semester was conducted through distance education. This significantly reduced the operations of the Organization. Given the uncertainty in the epidemiological and economic outlook, there may be short and long-term

Clayton Child Care, Inc.
Notes to Financial Statements

implications for the Organization. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

12. Subsequent Events

On September 13, 2021, the Organization sold its office building for \$790,000 and moved into space leased from one of its program sites free of charge. The lease for donated office space expires in July 2024.

On December 7, 2021, \$1,358,647 of the PPP Loan was forgiven.

The Organization evaluated subsequent events after the statement of financial position date of June 30, 2021 through 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, 2021

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Grant Number	Federal Expenditures
U.S. Small Business Administration:			
Disaster Assistance Loan	59.008	N/A	\$ 150,000
U.S. Department of Education:			
Passed through Texas Education Agency:			
Twenty-First Century Community Learning Centers	84.287C	206950247110003	633,762
Twenty-First Century Community Learning Centers	84.287C	216950247110003	<u>1,535,449</u>
Total U.S. Department of Education			2,169,211
U.S. Department of Housing and Urban Development:			
CDBG - Entitlement Grants Cluster:			
City of Fort Worth:			
Community Development Block Grant	14.218	B-20-MW-48-0010	67,103
U.S. Department of Health and Human Services			
Texas Workforce Commission			
Child Care and Development Block Grant	93.575	2921CCR005692	41,068
Child Care and Development Block Grant	93.575	2921CCR005740	49,165
Child Care and Development Block Grant	93.575	2921CCR005773	40,299
Child Care and Development Block Grant	93.575	2921CCR005746	48,877
Child Care and Development Block Grant	93.575	2921CCR005764	47,409
Child Care and Development Block Grant	93.575	2921CCR005766	40,455
Child Care and Development Block Grant	93.575	2921CCR005761	42,449
Child Care and Development Block Grant	93.575	2921CCR005747	50,716
Child Care and Development Block Grant	93.575	2921CCR005717	9,985
Child Care and Development Block Grant	93.575	2921CCR005767	46,653
Child Care and Development Block Grant	93.575	2921CCR007643	23,363
Child Care and Development Block Grant	93.575	2921CCR005759	40,066
Child Care and Development Block Grant	93.575	2921CCR007645	40,863
Child Care and Development Block Grant	93.575	2921CCR005774	41,331
Child Care and Development Block Grant	93.575	2921CCR005743	35,522
Child Care and Development Block Grant	93.575	2921CCR005708	29,112
Child Care and Development Block Grant	93.575	2921CCR005757	43,422

See notes to schedule of expenditures of federal awards

Clayton Child Care, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Grant Number	Federal Expenditures
Child Care and Development Block Grant	93.575	2921CCR005727	\$ 27,426
Child Care and Development Block Grant	93.575	2921CCR005697	31,734
Child Care and Development Block Grant	93.575	2921CCR005700	37,110
Child Care and Development Block Grant	93.575	2921CCR005762	28,974
Child Care and Development Block Grant	93.575	2921CCR005751	28,036
Child Care and Development Block Grant	93.575	2921CCR007647	44,093
Child Care and Development Block Grant	93.575	2921CCR005753	28,053
Child Care and Development Block Grant	93.575	2921CCR007648	29,338
Child Care and Development Block Grant	93.575	2921CCR005718	9,523
Child Care and Development Block Grant	93.575	2921CCR005722	61,915
Child Care and Development Block Grant	93.575	2921CCR007646	38,747
Child Care and Development Block Grant	93.575	2921CCR005749	28,883
Child Care and Development Block Grant	93.575	2921CCR005755	36,130
Child Care and Development Block Grant	93.575	2921CCR005710	27,560
Child Care and Development Block Grant	93.575	2921CCR005769	21,377
Child Care and Development Block Grant	93.575	2921CCR007641	31,836
Child Care and Development Block Grant	93.575	2921CCR005732	23,883
Child Care and Development Block Grant	93.575	2921CCR007642	28,731
Child Care and Development Block Grant	93.575	2921CCR007082	16,543
Child Care and Development Block Grant	93.575	2921CCR005771	39,577
Child Care and Development Block Grant	93.575	2921CCR005728	14,781
Child Care and Development Block Grant	93.575	2921CCR007640	17,519
Child Care and Development Block Grant	93.575	2921CCR005776	29,047
Child Care and Development Block Grant	93.575	2921CCR007644	<u>66,439</u>
Total U.S. Health and Human Services			<u>1,418,010</u>
Total expenditures of federal awards			<u>\$ 3,804,324</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, 2021

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, 2021, 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 February 6, 2022.

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
February 6, 2022

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, 2021. 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, 2021.

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
February 6, 2022

Clayton Child Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

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 programs:

CFDA 93.575 Child Care and Development Block Grant

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, 2021

None.