



Clayton Child Care, Inc. and Affiliate

**Consolidated and Unconsolidated Financial Statements with Supplementary
Information and Compliance Reports
June 30, 2023 and 2022**

Clayton Child Care, Inc. and Affiliate

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Independent Auditors' Report

To the Board of Directors of
Clayton Child Care, Inc. and Affiliate

Report on the Audit of the Consolidated and Unconsolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Clayton Child Care, Inc. and Affiliate (nonprofit organizations) which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements. We have also audited the accompanying financial statements of Clayton Childcare, Inc., which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2023 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Clayton Child Care, Inc. and Affiliate as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP). Also, in our opinion, the 2022 financial statements present fairly, in all material respects, the financial position of Clayton Childcare, Inc. as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with GAAP.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated and Unconsolidated Financial Statements section of our report. We are required to be independent of Clayton Child Care, Inc. and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of Clayton Youth Enrichment Foundation, the affiliate, were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Consolidated and Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and unconsolidated financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated and unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and unconsolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Clayton Child Care, Inc. and Affiliate's ability to continue as a going concern within one year after the date that the consolidated and unconsolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated and Unconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated and unconsolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated and unconsolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated and unconsolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Clayton Child Care, Inc. and Affiliate's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated and unconsolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Clayton Child Care, Inc. and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated and unconsolidated financial statements as a whole. The accompanying consolidating schedules of financial position and the activities of Clayton Childcare, Inc. and Affiliate as of and for the year ended June 30, 2023 are presented for the purposes of additional analysis and are not a required part of the 2023 consolidated financial statements. Additionally, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for the purpose of additional analysis and is not a required part of the consolidated and unconsolidated 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 consolidated and unconsolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated and unconsolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated and unconsolidated financial statements or to the consolidated and unconsolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the consolidated and unconsolidated 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 25, 2023 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 solely 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.

Correction of an Error

As discussed in Note 2 to the consolidated and unconsolidated financial statements, certain errors resulting in overstatement of amounts previously reported for other receivables and miscellaneous income as of and for the year ended June 30, 2022 were discovered by management during the current year. Accordingly, amounts reported for other receivables and miscellaneous income have been restated in the 2022 unconsolidated financial statements now presented, and an adjustment has been made to net assets as of July 1, 2021 to correct the error. Our opinion is not modified with respect to that matter.



A Limited Liability Partnership

Arlington, Texas
September 25, 2023

Clayton Child Care, Inc. and Affiliate
Consolidated and Unconsolidated Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>As Restated</u>
	(Consolidated)	2022
		(Unconsolidated)
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,896,698	\$ 4,891,462
Investments	3,573,733	-
Accounts receivable	87,272	61,726
Grants receivable	568,106	3,122,198
Prepaid expenses	<u>135,007</u>	<u>78,126</u>
Total current assets	9,260,816	8,153,512
Noncurrent assets:		
Property and equipment, net	<u>78,539</u>	<u>102,217</u>
Total assets	<u>\$ 9,339,355</u>	<u>\$ 8,255,729</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 111,854	\$ 142,452
Accrued expenses	569,269	583,387
Deferred revenue	29,500	265,845
Notes payable, current	<u>-</u>	<u>1,719</u>
Total current liabilities	710,623	993,403
Notes payable, net	<u>-</u>	<u>147,448</u>
Total liabilities	710,623	1,140,851
Net assets:		
Without donor restrictions:		
Undesignated	8,628,732	6,278,133
Board designated	<u>-</u>	<u>836,745</u>
Total net assets	<u>8,628,732</u>	<u>7,114,878</u>
Total liabilities and net assets	<u>\$ 9,339,355</u>	<u>\$ 8,255,729</u>

See notes to consolidated and unconsolidated financial statements.

Clayton Child Care, Inc. and Affiliate
Consolidated Statement of Activities
Year Ended June 30, 2023

Revenue and support:	
Child care fees, net	\$ 5,993,963
Government grants and contracts	10,487,638
Contributions of nonfinancial assets	1,833,638
Contributions of financial assets	134,263
Investment income	297,313
Miscellaneous	<u>13,663</u>
Total revenue and support	18,760,478
Operating expenses:	
Program	15,406,495
Administrative	1,691,382
Fundraising	<u>148,747</u>
Total operating expenses	<u>17,246,624</u>
Change in net assets	1,513,854
Net assets at beginning of year, as restated	<u>7,114,878</u>
Net assets at end of year	<u><u>\$ 8,628,732</u></u>

See notes to consolidated and unconsolidated financial statements.

Clayton Child Care, Inc.
Unconsolidated Statement of Activities
Year Ended June 30, 2022

	As Restated
Revenue and support:	
Child care fees, net	\$ 4,403,199
Government grants and contracts	9,614,097
Contributions of nonfinancial assets	1,586,340
Contributions of financial assets	264,596
Investment Income	2,961
Total revenue and support	15,871,193
Operating expenses:	
Program	11,714,627
Administrative	1,354,470
Fundraising	132,001
Total operating expenses	13,201,098
Change in net assets from operations	2,670,095
Other income:	
Gain on sale of property	177,008
Gain on forgiveness of Paycheck Protection loan	2,790,047
Total other income	2,967,055
Change in net assets	5,637,150
Net assets at beginning of year	1,477,728
Net assets at end of year	\$ 7,114,878

See notes to consolidated and unconsolidated financial statements.

Clayton Child Care, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 9,521,813	\$ 997,167	\$ 126,626	\$ 10,645,606
Professional fees and contracted services	1,341,982	61,850	15,001	1,418,833
Service fees	291,534	39,328	813	331,675
Supplies and materials	82,473	189,960	2,498	274,931
Occupancy	1,194,799	44,941	934	1,240,674
Travel and transportation	89,034	5,293	-	94,327
Conferences and staff development	69,015	1,318	-	70,333
Program activities and supplies	849,678	834	-	850,512
Marketing and recruitment	54,031	180,397	204	234,632
Insurance	125,073	22,804	578	148,455
Depreciation	-	49,908	-	49,908
Other	33,164	19,895	40	53,099
Total expenses before in-kind expenses	13,652,596	1,613,695	146,695	15,412,986
In-kind expenses	1,753,899	77,687	2,052	1,833,638
Total expenses	\$ 15,406,495	\$ 1,691,382	\$ 148,747	\$ 17,246,624

See notes to consolidated and unconsolidated financial statements.

Clayton Child Care, Inc.
Unconsolidated Statement of Functional Expenses
Year Ended June 30, 2022

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 7,368,105	\$ 932,645	\$ 111,624	\$ 8,412,374
Professional fees and contracted services	723,160	63,667	-	786,827
Service fees	224,941	14,745	416	240,102
Supplies and materials	155,776	41,081	7,987	204,844
Occupancy	751,421	26,994	3,919	782,334
Travel and transportation	52,954	3,951	-	56,905
Conferences and staff development	32,210	1,799	-	34,009
Program activities and supplies	629,624	4,105	4	633,733
Marketing and recruitment	5,589	184,340	200	190,129
Insurance	159,548	46,432	806	206,786
Depreciation	27,057	12,488	2,081	41,626
Other	14,276	9,180	1,633	25,089
Total expenses before in-kind expenses	10,144,661	1,341,427	128,670	11,614,758
In-kind expenses	<u>1,569,966</u>	<u>13,043</u>	<u>3,331</u>	<u>1,586,340</u>
Total expenses	<u>\$ 11,714,627</u>	<u>\$ 1,354,470</u>	<u>\$ 132,001</u>	<u>\$ 13,201,098</u>

See notes to consolidated and unconsolidated financial statements.

Clayton Child Care, Inc. and Affiliate
Consolidated and Unconsolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	As Restated 2022
	(Consolidated)	(Unconsolidated)
Cash flows from operating activities:		
Change in net assets	\$ 1,513,854	\$ 5,637,150
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,908	41,626
Gain on forgiveness of Paycheck Protection Program loan	-	(2,790,047)
Gain on sale of property	-	(177,008)
Realized and unrealized gains on investments	(119,669)	-
Changes in assets and liabilities:		
Accounts receivable	(25,546)	(36,726)
Grants receivable	2,554,092	(1,337,715)
Other receivable	-	11,157
Prepaid expenses	(56,881)	(24,576)
Accounts payable	(30,598)	71,555
Accrued expenses	(14,118)	219,196
Deferred revenue	(236,345)	254,626
Net cash provided by operating activities	3,634,697	1,869,238
Cash flows from investing activities:		
Proceeds from sales of investments	37,726	-
Purchases of investments	(3,491,790)	-
Proceeds from disposals of assets	-	736,745
Purchases of property and equipment	(26,230)	(107,505)
Net cash provided (used) by investing activities	(3,480,294)	629,240
Cash flows from financing activities:		
Payments on notes payable	(149,167)	(177,853)
Net cash used by financing activities	(149,167)	(177,853)
Net increase in cash and cash equivalents	5,236	2,320,625
Cash and cash equivalents at beginning of year	4,891,462	2,570,837
Cash and cash equivalents at end of year	\$ 4,896,698	\$ 4,891,462
Supplemental disclosure of non-cash financing activities:		
Forgiveness of Paycheck Protection Program loan	\$ -	\$ 2,790,047

See notes to consolidated and unconsolidated financial statements.

Clayton Child Care, Inc. and Affiliate

Notes to Consolidated and Unconsolidated Financial Statements

1. Organization

Clayton Child Care, Inc. d.b.a. Clayton Youth Enrichment Services (Clayton) is a nonprofit organization established in 1975 to provide programs for children, primarily before and after school on site at school campuses. Clayton 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. Clayton's revenue is received from parent fees, local school districts, other governmental type organizations, private donors, foundations and federal grants.

In November 2022, Clayton Youth Enrichment Foundation (Foundation) was incorporated in the state of Texas as a nonprofit organization operated exclusively to carry out the purposes of Clayton.

Clayton and the Foundation are referred to herein as the Organization.

2. Restatement of Previously Audited Unconsolidated Financial Statements

During 2023, the Organization became aware of an accounting error in its 2022 unconsolidated financial statements that was determined to be material and relates to the accrual of the Employee Retention Credit under the Consolidated Appropriations Act. The Organization has restated its 2022 unconsolidated financial statements to reflect the modifications to correct this error which consist of a decrease to other receivables of \$590,863, a decrease to miscellaneous income totaling \$311,394 and a decrease to net assets without donor restrictions totaling \$279,469.

3. Summary of Significant Accounting Policies

The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America (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.

Consolidated Financial Statements

In accordance with the provisions of FASB ASC 958-810 Not-for-Profit Entities/Consolidations, the financial statements of Clayton and the Foundation as of and for the year ended June 30, 2023 have been consolidated and all inter-organization transactions and accounts have been eliminated.

Clayton Child Care, Inc. and Affiliate

Notes to Consolidated and Unconsolidated Financial Statements

Consolidated and Unconsolidated 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, 2023 or 2022.

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 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 and grants and accounts receivable. Cash and cash equivalents are placed with high credit quality financial institutions to minimize risk. 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, 2023, the Organization's uninsured balances totaled \$2,131,513. Grants and accounts receivable are unsecured and are due from various government agencies, local school districts, country clubs and other nonprofit organizations. The Organization regularly evaluates the collectability of accounts and grants receivable and maintains allowances for potential losses, if considered necessary.

Clayton Child Care, Inc. and Affiliate

Notes to Consolidated and Unconsolidated Financial Statements

Concentrations

As of June 30, 2023 approximately 75% of accounts receivable was due from four organizations. As of June 30, 2022 approximately 83% of accounts receivable was due from three organizations. As of June 30, 2023, approximately 82% of grants receivable was due from one grantor. As of June 30, 2022, approximately 94% of grants receivable was due from two donors or grantors. One federal pass-through grantor agency comprised approximately 41% of the Organization's revenues for the year ended June 30, 2023. Two federal pass-through grantor agencies comprised approximately 51% of the Organization's revenue for the year ended June 30, 2022.

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.

Accounts Receivable

Accounts receivable consist primarily of child care fees outstanding at year-end. Accounts receivable are stated at unpaid balances, less an allowance for uncollectible accounts. Management evaluates allowance for doubtful accounts based on the evaluation of individual accounts, historic collection information and existing economic conditions. Management does not consider an allowance for uncollectible accounts necessary as of June 30, 2023 and 2022.

Grants Receivable

Grants receivable consist of federal and state grant awards and cost reimbursement grant requests outstanding at year-end. Government grants receivable are stated at unpaid balances.

Investments

Investments in mutual funds are recorded at their fair values in the accompanying consolidated statements of financial position as of June 30, 2023. Changes in the fair values are reported in the consolidated statement of activities for the year ended June 30, 2023. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of investments are included in the consolidated statement of activities for the year ended June 30, 2023.

The Organization's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Organization's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of the investments could occur in the near term and such changes could materially affect the amounts reported in the consolidated financial statements as of and for the year ended June 30, 2023.

Clayton Child Care, Inc. and Affiliate

Notes to Consolidated and Unconsolidated Financial Statements

Property and Equipment

Property and equipment purchased by the Organization are 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.

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, 2023, the Organization has approximately \$183,000 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, 2022, the Organization had approximately \$288,000 of conditional grants from various government agencies recognized as revenue in the year ended June 30, 2023.

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.

Clayton Child Care, Inc. and Affiliate

Notes to Consolidated and Unconsolidated Financial Statements

Marketing and Advertising Costs

Marketing and advertising costs are expensed as incurred. During the years ended June 30, 2023 and 2022, marketing and advertising expenses were \$164,329 and \$120,479, respectively.

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, 2023 and 2022. Therefore, no tax provision or liability has been reported in the accompanying consolidated and unconsolidated financial statements. The Organization had no significant uncertain tax positions for the years ended June 30, 2023 and 2022.

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, 2023 and 2022, 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 consolidated and unconsolidated 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 consolidated and unconsolidated 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.

Estimates and Assumptions

The preparation of consolidated and unconsolidated 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 consolidated and unconsolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Clayton Child Care, Inc. and Affiliate

Notes to Consolidated and Unconsolidated Financial Statements

Contract Compliance

The Organization is responsible for compliance with provisions of contracts and grant agreements. Noncompliance could result in the disallowance of expenditures and a request for reimbursement. In the opinion of the Organization's management, such disallowance, if any, would not be significant to the Organization's consolidated and unconsolidated financial statements.

Accounting Pronouncement Adopted

The Company adopted ASU No. 2016-02, *Leases* (Topic 842). The guidance in the ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The Organization determined that the current lease obligations would not fall under the scope of the new lease standard or were not significant enough to be recorded in accordance with the standard.

Reclassification

Certain items in the 2022 unconsolidated financial statements have been reclassified to conform to current year classifications, specifically, investment income in the statement of activities. Such reclassifications had no effect on previously reported changes in net assets.

4. Fair Value Measurements

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

- Level 1 Inputs to the valuation methodology are quoted prices available in active markets;
- Level 2 Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable;
- Level 3 Inputs to the valuation methodology are unobservable inputs in which little or no market data exists, therefore requiring an entity to make its own assumptions.

Clayton Child Care, Inc. and Affiliate
Notes to Consolidated and Unconsolidated Financial Statements

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies for assets and liabilities measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Mutual funds: Valued at the net asset value (NAV) of shares held by the Organization at year end. The NAV is a quoted price in an active market.

The Organization's investments are measured using Level 1 inputs.

The following table presents fair values of investments as of June 30, 2023:

Mutual funds:	
Equities	\$ 1,669,001
Fixed Income	<u>1,904,732</u>
Total	<u><u>\$ 3,573,733</u></u>

For the year ended June 30, 2023, the Organization did not have any securities which represent 10% or more of total investments.

Investment income consists of the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 177,644	\$ 2,961
Realized and unrealized gains	<u>119,669</u>	<u> </u>
	<u><u>\$ 297,313</u></u>	<u><u>\$ 2,961</u></u>

5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Building and improvements	\$ 118,725	\$ 118,725
Office and computer equipment	<u>124,079</u>	<u>97,848</u>
	242,804	216,573
Less accumulated depreciation	<u>(164,265)</u>	<u>(114,357)</u>
Property and equipment, net	<u><u>\$ 78,539</u></u>	<u><u>\$ 102,216</u></u>

During the year ended June 30, 2022, the Organization sold its office building for \$790,000 resulting in a gain on sale of property totaling \$177,008.

Clayton Child Care, Inc. and Affiliate
Notes to Consolidated and Unconsolidated Financial Statements

6. Net Assets Without Donor Restrictions

Net assets without donor restrictions as of June 30, 2022 includes \$836,745 in net assets designated by the board of directors for special projects. The Organization did not have any net assets designated by the board of directors as of June 30, 2023.

7. 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. As of June 30, 2023, there is no outstanding balance on the loan.

Paycheck Protection Program Loans

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.

On December 7, 2021, a portion of the loan totaling \$1,358,647 was forgiven by the SBA. The remaining balance of \$177,853 was repaid in accordance with the terms of the agreement. The loan forgiveness is reported as gain on forgiveness of PPP loan on the statement of activities for the year ending June 30, 2022.

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. On May 26, 2022, the Organization received full forgiveness of the second PPP loan. The loan forgiveness is reported as gain on forgiveness of PPP loan on the statement of activities for the year ending June 30, 2022.

Clayton Child Care, Inc. and Affiliate
Notes to Consolidated and Unconsolidated Financial Statements

8. Contributions of Nonfinancial Assets

The Organization received the following contributions of nonfinancial assets during the year ended June 30, 2023:

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Food	\$ 658,751	\$ -	\$ 658,751
Rent and utilities	970,067	177,034	1,147,101
Services	150	27,636	27,786
Total	<u>\$ 1,628,968</u>	<u>\$ 204,670</u>	<u>\$ 1,833,638</u>

The Organization received the following contributions of nonfinancial assets during the year ended June 30, 2022:

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Food	\$ 338,735	\$ -	\$ 338,735
Rent and utilities	1,128,810	117,427	1,246,237
Services	-	1,368	1,368
Total	<u>\$ 1,467,545</u>	<u>\$ 118,795</u>	<u>\$ 1,586,340</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 consolidated and unconsolidated financial statements for these types of donated services, as they do not meet the criteria for recognition.

Food

Contributed food is valued based on the number of meals served multiplied by the USDA rate for free food.

Rent and Utilities

Contributed rent includes rent for the corporate office and program rent at sites. The corporate office rent is valued based on the fair rental rate recommendation by Commercial Real Estate Providers. Program rent at sites is calculated for grant sites and independent school districts on a set rate per day basis.

Clayton Child Care, Inc. and Affiliate
Notes to Consolidated and Unconsolidated Financial Statements

Services

Contributed services are valued and reported at the standard invoice rate offered by the donor.

9. Lease Commitments

The Organization leases program space for use in its operations under cancellable operating leases. The Organization also leases equipment and storage space 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:

2024	\$	22,125
2025		1,294

The Organization has non-cancelable service agreements relating to technology usage expiring through 2026. Future minimum lease payments under the non-cancellable service lease agreements are as follows for the years ending June 30:

2024	\$	15,390
2025		9,000
2026		750

Expenses incurred under these agreements totaled \$44,379 and \$43,791 for the years ended June 30, 2023 and 2022, respectively.

Effective August 2021, the Organization leased office space through a noncancelable lease agreement which provides donated rent (see Note 8). This agreement expires in August 2024.

10. 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 4% of the employee's eligible wages for the year ended June 30, 2022. The Organization contributed an amount equal to 100% of the employee's pretax contributions up to a maximum 2% of the employee's eligible wages for the year ended June 30, 2023. Total retirement plan expense, including plan administration, for the years ended June 30, 2023 and 2022 was \$33,713 and \$66,772, respectively.

Clayton Child Care, Inc. and Affiliate
Notes to Consolidated and Unconsolidated Financial Statements

11. Liquidity and Availability of Resources

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,896,698	\$ 4,891,462
Investments	3,573,733	-
Accounts receivable	87,272	61,726
Grants receivable	<u>568,106</u>	<u>3,122,198</u>
Total financial assets	9,125,809	8,075,386
Less amounts unavailable for general expenditures within one year, due to:		
Board-designated special projects fund	<u>-</u>	<u>836,745</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,125,809</u>	<u>\$ 7,238,641</u>

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. During the years ended June 30, 2023 and 2022, the level of liquidity and reserves was managed within the Organization's policy requirements.

12. Subsequent Events

The Organization has evaluated subsequent events through September 25, 2023, the date the consolidated and unconsolidated financial statements were available to be issued, and concluded that no additional disclosures are required.

Clayton Child Care, Inc. and Affiliate
Consolidating Statement of Financial Position
June 30, 2023

	Clayton Child Care, Inc.	Clayton Youth Enrichment Foundation	Eliminations	Consolidated Total
Current assets:				
Cash and cash equivalents	\$ 2,219,447	\$ 2,677,251	\$ -	\$ 4,896,698
Investments	-	3,573,733	-	3,573,733
Accounts receivable	93,843	-	(6,571)	87,272
Grants receivable	568,106	-	-	568,106
Prepaid expenses	133,937	1,070	-	135,007
Total current assets	3,015,333	6,252,054	(6,571)	9,260,816
Noncurrent assets:				
Property and equipment, net	78,539	-	-	78,539
Total assets	\$ 3,093,872	\$ 6,252,054	\$ (6,571)	\$ 9,339,355
Current liabilities:				
Accounts payable	\$ 111,854	\$ 6,571	\$ (6,571)	\$ 111,854
Accrued expenses	569,269	-	-	569,269
Deferred revenue	29,500	-	-	29,500
Total liabilities	710,623	6,571	(6,571)	710,623
Net assets without donor restrictions	2,383,249	6,245,483	-	8,628,732
Total liabilities and net assets	\$ 3,093,872	\$ 6,252,054	\$ (6,571)	\$ 9,339,355

Clayton Child Care, Inc. and Affiliate
Consolidating Statement of Activities
Year Ended June 30, 2023

	Clayton Child Care, Inc.	Clayton Youth Enrichment Foundation	Consolidated Total
Revenue and support:			
Child care fees, net	\$ 5,993,963	\$ -	\$ 5,993,963
Government grants and contracts	10,487,638	-	10,487,638
Contributions of nonfinancial assets	1,833,638	-	1,833,638
Contributions of financial assets	134,263	-	134,263
Investment income	138,698	158,615	297,313
Miscellaneous	13,663	-	13,663
Total operating revenue and support	18,601,863	158,615	18,760,478
Operating expenses:			
Program	15,406,495	-	15,406,495
Administrative	1,676,456	14,926	1,691,382
Fundraising	148,747	-	148,747
Total operating expenses	17,231,698	14,926	17,246,624
Change in net assets	1,370,165	143,689	1,513,854
Transfers	(6,101,794)	6,101,794	-
Change in net assets	(4,731,629)	6,245,483	1,513,854
Net assets at beginning of year	7,114,878	-	7,114,878
Net assets at end of year	\$ 2,383,249	\$ 6,245,483	\$ 8,628,732

Clayton Child Care, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

<u>Federal Grantor/Pass-through Grantor/Cluster or Program Title</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:			
City of Fort Worth:			
CDBG - Entitlement Grants Cluster			
Community Development Block Grant	14.218	B-20-MW-48-0010	\$ 23,779
U.S. Department of Education:			
Texas Education Agency:			
Twenty-First Century Community Learning Centers	84.287	236950307110013	1,614,687
Twenty-First Century Community Learning Centers	84.287	226950307110009	<u>27,908</u>
Total U.S. Department of Education			<u>1,642,595</u>
Total expenditures of federal awards			<u><u>\$ 1,666,374</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, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Clayton Child Care, Inc. (Organization) under programs of the federal government for the year ended June 30, 2023. The information in the 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 minimis indirect cost rate, and continues to use the cost allocation plan negotiated individually with its grantors, as applicable.

**Independent Auditors' Report 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 of
Clayton Child Care, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Clayton Child Care, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 25, 2023. The financial statements of Clayton Youth Enrichment Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Affiliate.

Report on 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) as a basis for designing 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 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 25, 2023

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

Board of Directors of
Clayton Child Care, Inc.

Report on Compliance for the Major Federal Program

Opinion on Each Major Federal Program

We have audited Clayton Child Care, Inc.'s (Organization) compliance with the types of compliance requirements identified as subject to audit 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, 2023. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 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 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 in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion was expressed.

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 25, 2023

Clayton Child Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Consolidated Financial Statements:

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Noncompliance material to consolidated financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	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)?	No

Identification of major federal programs:

Assistance Listing Number/ Name of Federal Program:

Twenty-First Century Community Learning Centers	84.287
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Consolidated Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Summary of Prior Year Audit Findings

None