Clayton Child Care, Inc. and Affiliate

Consolidated Financial Statements with Supplementary Information and Compliance Reports
June 30, 2024 and 2023

SFC
Certified Public Accountants

Clayton Child Care, Inc. and Affiliate
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SFC
Certified Public Accountants

Independent Auditors' Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Clayton Child Care, Inc. and Affiliate (nonprofit organizations) (collectively, the Organization) which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (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 Financial Statements section of our report. We are required to be independent of the Organization 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 consolidated financial statements of Clayton Youth Enrichment Foundation, the affiliate, were not audited in accordance with *Government Auditing Standards*.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Organization changed its method of accounting for the allowance for credit losses effective July 1, 2023 as required by the provisions of Financial Accounting Standards Board Accounting Standard Update 2016-03 *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 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 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 the Organization'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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 financial statements as a whole. The accompanying consolidating statements of financial position and activities are presented for the purposes of additional analysis and are not a required part of the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated 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 financial statements or to the consolidated 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 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 4, 2025 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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 the Organization's internal control over financial reporting and compliance.

Sutton Frost Cary
A Limited Liability Partnership

Arlington, Texas
February 4, 2025

Clayton Child Care, Inc. and Affiliate
Consolidated Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash and cash equivalents	$ 2,007,869	$ 4,896,698
Investments	6,615,801	3,573,733
Accounts receivable	106,128	87,272
Grants receivable	257,136	568,106
Prepaid expenses	108,919	135,007
Total current assets	9,095,853	9,260,816
Noncurrent assets:		
Property and equipment, net	28,195	78,539
Total assets	$ 9,124,048	$ 9,339,355
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 286,216	$ 111,854
Accrued expenses	404,451	569,269
Deferred revenue	-	29,500
Total liabilities	690,667	710,623
Net assets:		
Without donor restrictions:		
Undesignated	8,400,841	8,628,732
Board designated	32,540	-
Total net assets	8,433,381	8,628,732
Total liabilities and net assets	$ 9,124,048	$ 9,339,355

See notes to consolidated financial statements.

Clayton Child Care, Inc. and Affiliate
Consolidated Statements of Activities
Years Ended June 30, 2024 and 2023

	2024	2023
Revenue and support:		
Child care fees, net	$ 7,460,105	5,993,963
Government grants and contracts	5,143,480	10,487,638
Contributions of nonfinancial assets	2,038,781	1,833,638
Contributions of financial assets	143,718	134,263
Investment income	870,691	297,313
Miscellaneous	13,494	13,663
Total revenue and support	15,670,269	18,760,478
Operating expenses:		
Program	13,261,475	15,281,564
Administrative	2,368,800	1,818,365
Fundraising	235,345	146,695
Total operating expenses	15,865,620	17,246,624
Change in net assets	(195,351)	1,513,854
Net assets at beginning of year	8,628,732	7,114,878
Net assets at end of year	$ 8,433,381	$ 8,628,732

See notes to consolidated financial statements.

Clayton Child Care, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended June 30, 2024

	Program	Administrative	Fundraising	Total
Payroll and related costs	$ 8,561,636	$ 1,205,780	$ 227,300	$ 9,994,716
Professional fees and contracted services	430,003	116,475	-	546,478
Service fees	343,782	88,980	1,996	434,758
Supplies and materials	70,028	208,574	2,450	281,052
Occupancy	850,014	25,135	1,344	876,493
Travel and transportation	114,399	8,040	130	122,569
Conferences and staff development	80,622	1,717	115	82,454
Program activities and supplies	761,373	3,622	152	765,147
Marketing and recruitment	75,701	162,185	250	238,136
Insurance	120,929	22,148	995	144,072
Depreciation	-	50,344	-	50,344
Other	164,588	125,419	613	290,620
Total expenses before in-kind expenses	11,573,075	2,018,419	235,345	13,826,839
In-kind expenses	1,688,400	350,381	-	2,038,781
Total expenses	$ 13,261,475	$ 2,368,800	$ 235,345	$ 15,865,620

See notes to consolidated financial statements.

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

	Program	Administrative	Fundraising	Total
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	41	53,100
Total expenses before in-kind expenses	13,652,596	1,613,695	146,695	15,412,986
In-kind expenses	1,628,968	204,670	-	1,833,638
Total expenses	$ 15,281,564	$ 1,818,365	146,695	$ 17,246,624

See notes to consolidated financial statements.

Clayton Child Care, Inc. and Affiliate
Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	$ (195,351)	$ 1,513,854
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	50,344	49,908
Realized and unrealized gains on investments	(641,807)	(119,669)
Changes in assets and liabilities:		
Accounts receivable	(18,856)	(25,546)
Grants receivable	310,970	2,554,092
Prepaid expenses	26,088	(56,881)
Accounts payable	174,362	(30,598)
Accrued expenses	(164,818)	(14,118)
Deferred revenue	(29,500)	(236,345)
Net cash provided (used) by operating activities	(488,568)	3,634,697
Cash flows from investing activities:		
Proceeds from sales of investments	1,720,688	37,726
Purchases of investments	(4,120,949)	(3,491,790)
Purchases of property and equipment	-	(26,230)
Net cash used by investing activities	(2,400,261)	(3,480,294)
Cash flows from financing activities:		
Payments on notes payable	-	(149,167)
Net cash used by financing activities	-	(149,167)
Change in cash and cash equivalents	(2,888,829)	5,236
Cash and cash equivalents at beginning of year	4,896,698	4,891,462
Cash and cash equivalents at end of year	$ 2,007,869	$ 4,896,698

See notes to consolidated 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 offers care and enrichment programs for children from infancy to 17 years old. This includes full-day holiday and summer camps, before and after school programs at school sites, and care for infants to preschool-aged children at early childhood centers. 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. 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 consolidated 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 years ended June 30, 2024 and 2023 have been consolidated and all inter-organization transactions and accounts have been eliminated.

Consolidated 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, 2024 or 2023.

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, 2024, the Organization's uninsured balances totaled $1,278,230. 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.

Concentrations

As of June 30, 2024 and 2023, approximately 12% and 75% of accounts receivable was due from one and four organizations, respectively. As of June 30, 2024 and 2023, approximately 68% and 82% of grants receivable was due from one grantor, respectively. As of June 30, 2024 and 2023, one federal pass-through grantor agency comprised approximately 17% and 41% of the Organization's revenues, respectively.

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, 2024 and 2023. Collections of accounts receivable is expected in the subsequent year.

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. No allowance for doubtful accounts was considered necessary at June 30, 2024 and 2023. Collections of grants receivable is expected in the subsequent year.

Investments

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

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 consolidated 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 years ended June 30, 2024 and 2023.

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 consolidated statements of financial position.

As of June 30, 2024, the Organization has approximately $369,000 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, 2023, the Organization had approximately $199,000 of conditional grants from various government agencies which was recognized as revenue during the year ended June 30, 2024.

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.

Marketing and Advertising Costs

Marketing and advertising costs are expensed as incurred. During the years ended June 30, 2024 and 2023, marketing and advertising expenses totaled $133,188 and $164,329, 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, 2024 and 2023. Therefore, no tax provision or liability has been reported in the accompanying consolidated financial statements. The Organization had no significant uncertain tax positions for the years ended June 30, 2024 and 2023.

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, 2024 and 2023, 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 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 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 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

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 financial statements.

Accounting Pronouncement Adopted

The Organization adopted Financing Accounting Standards Board Accounting Standard Update 2016 – 13, *Financial instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Organization's consolidated financial statements but did change how the consideration for allowance for credit losses is determined.

Reclassification

Certain items in the 2023 consolidated financial statements have been reclassified to conform with the 2024 presentation, specifically, in-kind expenses on the consolidated statement of functional expenses.

3. 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.

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, 2024:

	2024	2023
Mutual funds:		
Equities	$ 3,813,222	$ 1,669,001
Fixed Income	2,802,579	1,904,732
Total	$ 6,615,801	$ 3,573,733

As of June 30, 2024 and 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:

	2024	2023
Interest and dividends	$ 228,884	$ 177,644
Realized and unrealized gains	641,807	119,669
	$ 870,691	$ 297,313

4. Property and Equipment

Property and equipment consist of the following at June 30:

	2024	2023
Building and improvements	$ 118,725	$ 118,725
Office and computer equipment	124,079	124,079
	242,804	242,804
Less accumulated depreciation	(214,609)	(164,265)
Property and equipment, net	$ 28,195	$ 78,539

Depreciation expense for the years ended June 30, 2024 and 2023 totaled $50,344 and $49,908, respectively.

5. Contributions of Nonfinancial Assets

The Organization received the following contributions of nonfinancial assets during the year ended June 30, 2024:

	Program	Administrative	Total
Food	$ 486,624	$ -	$ 486,624
Rent and utilities	1,173,015	350,381	1,523,396
Services	28,761	-	28,761
Total	$ 1,688,400	$ 350,381	$ 2,038,781

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

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

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 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.

Services

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

There were no donor-imposed restrictions on contributions of nonfinancial assets during the years ended June 30, 2024 and 2023.

6. Lease Commitments

The Organization 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 total $15,654 for the year ending June 30, 2025.

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:

2025	$	18,708
2026		18,708
2027		4,795

Expenses incurred under these agreements totaled $45,932 and $44,379 for the years ended June 30, 2024 and 2023, respectively.

Effective August 2021, the Organization leased office space through a cancelable lease agreement which provides donated rent (see Note 5). This agreement expires in May 2025.

7. 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 2% of the employee's eligible wages for the years ended June 30, 2024 and 2023. Total retirement plan expense, including plan administration, for the years ended June 30, 2024 and 2023 was $49,488 and $33,713, respectively.

8. Net Assets Without Donor Restrictions

Net assets without donor restriction include net assets designated by the board of directors for an employee emergency fund totaling $32,540 as of June 30, 2024. The Organization did not have any net assets designated by the board of directors as of June 30, 2023.

9. Liquidity and Availability of Resources

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

	2024	2023
Cash and cash equivalents	$ 2,007,869	$ 4,896,698
Investments	6,615,801	3,573,733
Accounts receivable	106,128	87,272
Grants receivable	257,136	568,106
Total financial assets	$ 8,986,934	$ 9,125,809

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, 2024 and 2023, the level of liquidity and reserves was managed within the Organization's policy requirements.

10. Subsequent Events

On August 30, 2024, the Foundation entered into a $5,000,000 line of credit with a bank. This line of credit accrues interest at the Secured Overnight Financing Rate (SOFR) plus 1.75%.

On September 10, 2024, Clayton at 2821 Lackland, LLC (LLC) was incorporated in the state of Texas as a wholly owned entity of Clayton.

On September 25, 2024, the Foundation entered into a $500,000 intercompany revolving line of credit with Clayton and a $4,500,000 intercompany line of credit with the LLC to loan the borrowed funds between entities.

On September 27, 2024, the LLC purchased a building totaling $2,369,750.

In January 2025, the board voted to change the Organization and Foundation's year end to August 31.

In January 2025, the Organization received a $250,000 draw on the line of credit.

The Organization has evaluated subsequent events through February 4, 2025, the date the consolidated 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, 2024

	Clayton Child Care, Inc.	Clayton Youth Enrichment Foundation	Eliminations	Consolidated Total
Current assets:				
Cash and cash equivalents	$ 1,592,601	$ 415,268	$ -	$ 2,007,869
Investments	-	6,615,801	-	6,615,801
Accounts receivable	119,231	163	(13,266)	106,128
Grants receivable	257,136	-	-	257,136
Prepaid expenses	108,919	-	-	108,919
Total current assets	2,077,887	7,031,232	(13,266)	9,095,853
Noncurrent assets:				
Property and equipment, net	28,195	-	-	28,195
Total assets	$ 2,106,082	$ 7,031,232	$ (13,266)	$ 9,124,048
Current liabilities:				
Accounts payable	$ 286,379	$ 13,103	$ (13,266)	$ 286,216
Accrued expenses	404,451	-	-	404,451
Total liabilities	690,830	13,103	(13,266)	690,667
Net assets:				
Without donor restrictions:				
Undesignated	1,415,252	6,985,589	-	8,400,841
Board designated	-	32,540	-	32,540
Total net assets	1,415,252	7,018,129	-	8,433,381
Total liabilities and net assets	$ 2,106,082	$ 7,031,232	$ (13,266)	$ 9,124,048

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, 2024

	Clayton Child Care, Inc.	Clayton Youth Enrichment Foundation	Consolidated Total
Revenue and support:			
Child care fees, net	$ 7,460,105	$ -	$ 7,460,105
Government grants and contracts	5,143,480	-	5,143,480
Contributions of nonfinancial assets	2,038,781	-	2,038,781
Contributions of financial assets	143,718	-	143,718
Investment income	51,442	819,249	870,691
Miscellaneous	13,494	-	13,494
Total operating revenue and support	14,851,020	819,249	15,670,269
Operating expenses:			
Program	13,261,475	-	13,261,475
Administrative	2,322,197	46,603	2,368,800
Fundraising	235,345	-	235,345
Total operating expenses	15,819,017	46,603	15,865,620
Change in net assets	(967,997)	772,646	(195,351)
Net assets at beginning of year	2,383,249	6,245,483	8,628,732
Net assets at end of year	$ 1,415,252	$ 7,018,129	$ 8,433,381

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	15,281,564	-	15,281,564
Administrative	1,803,439	14,926	1,818,365
Fundraising	146,695	-	146,695
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, 2024

Federal Grantor/Pass-through Grantor/Cluster or Program Title	Assistance Listing Number	Contract Number	Federal Expenditures
U.S. Department of Health and Human Services			
CCDF Cluster			
Texas Workforce Commission:			
Child Care and Development Block Grant	93.575	22090867	$ 233,776
Child Care and Development Block Grant	93.575	22090867	114,000
Total CCDF Cluster			347,776
Total U.S. Department of Health and Human Services			347,776
U.S. Department of Education:			
Texas Education Agency:			
Twenty-First Century Community Learning Centers	84.287	246950307110013	1,382,831
Twenty-First Century Community Learning Centers	84.287	236950307110013	46,062
Total U.S. Department of Education			1,428,893
Total expenditures of federal awards			$ 1,776,669

See notes to schedule of expenditures of federal awards

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, 2024. 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 elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SFC
Certified Public Accountants

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, 2024, 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 February 4, 2025. 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
February 4, 2025

Certified Public Accountants

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, 2024. 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, 2024.

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.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
February 4, 2025

Clayton Child Care, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2024

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:
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