

**CLAYTON CHILD CARE, INC.**

**FINANCIAL STATEMENTS  
AND  
OTHER INFORMATION  
WITH  
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED JUNE 30, 2015 AND 2014**

**CLAYTON CHILD CARE, INC.**  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Clayton Child Care, Inc.  
Fort Worth, Texas

We have audited the accompanying financial statements of Clayton Child Care, Inc. which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors  
Clayton Child Care, Inc.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clayton Child Care Inc., as of June 30, 2015, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards, as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the UGMS State of Texas Single Audit Circular is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2016, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control of financial reporting or 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.

**Report on Summarized Comparative Information**

The June 30, 2014 Clayton Child Care, Inc. financial statements were audited by Sanford, Baumeister & Frazier, LLP, who became part of CliftonLarsonAllen, LLP as of September 1, 2015, and whose report dated December 3, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



**CliftonLarsonAllen LLP**

Fort Worth, Texas  
February 22, 2016

**CLAYTON CHILD CARE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2015 AND 2014**

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 887,888	\$ 1,144,038
Accounts Receivable, Net of Allowance	369,820	420,931
Prepaid Expenses	71,188	37,735
Total Current Assets	1,328,896	1,602,704
<b>PROPERTY AND EQUIPMENT</b>		
Land	136,648	136,648
Building and Improvements	580,313	580,313
Office and Computer Equipment	404,961	436,836
Vehicles	23,270	23,270
Total Property and Equipment	1,145,192	1,177,067
Less: Accumulated Depreciation	(597,672)	(546,003)
Net Property and Equipment	547,520	631,064
Total Assets	\$ 1,876,416	\$ 2,233,768
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 142,337	\$ 171,344
Accrued Wages and Payroll Taxes	257,687	200,728
Accrued Retirement Plan Payable	36,552	35,047
Notes Payable - Current	9,858	16,668
Accrued Employee Paid Time Off	1,976	91,332
Total Liabilities	448,410	515,119
<b>NET ASSETS - Unrestricted</b>	1,428,006	1,718,649
Total Liabilities and Assets	\$ 1,876,416	\$ 2,233,768

See accompanying Notes to Financial Statements.

**CLAYTON CHILD CARE, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
<b>SUPPORT AND REVENUE</b>		
Support:		
Contributions	\$ 57,563	\$ 17,746
Special Event Revenue, Net of Direct Costs of \$18,898	3,778	-
In-kind Contributions of Rent, Labor and Supplies	2,463,369	2,708,505
Total Support	2,524,710	2,726,251
Revenue:		
Child Care Fees, Net of Bad Debts	5,590,251	3,596,608
Governmental Grants	3,383,651	5,059,536
Interest Income	736	901
Miscellaneous	24,090	35,976
Total Revenue	8,998,728	8,693,021
 Total Support and Revenue	 11,523,438	 11,419,272
 <b>EXPENSES</b>		
Program Services	10,685,067	10,001,278
Fundraising	36,458	17,150
Support Services - Management and General	1,092,556	1,298,807
Total Expenses	11,814,081	11,317,235
 <b>CHANGE IN NET ASSETS</b>	 (290,643)	 102,037
Net Assets - Beginning of Year	1,718,649	1,616,612
 <b>NET ASSETS - END OF YEAR</b>	 \$ 1,428,006	 \$ 1,718,649

See accompanying Notes to Financial Statements.

**CLAYTON CHILD CARE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2015**

	Program Services	Fund Raising	Management and General	2015 Total
Salaries and Wages	\$ 4,751,678	\$ 26,000	\$ 524,306	\$ 5,301,984
Payroll Taxes	430,423	2,355	47,493	480,271
Health Insurance	333,115	2,235	113,385	448,735
Retirement Plan	25,929	702	10,146	36,777
Workers' Compensation Insurance	53,042	296	5,927	59,265
<b>Total Salaries and Related Expenses</b>	<b>5,594,187</b>	<b>31,588</b>	<b>701,257</b>	<b>6,327,032</b>
Automation Processing Fees	52,955	241	10,614	63,810
Appreciation and Awards Banquet	4,786	-	199	4,985
Auxiliary Child Care Services	2,862	-	-	2,862
Bank Charges	77,509	-	51,673	129,182
Communications	14,717	-	22,076	36,793
Community Relations	7,929	-	881	8,810
Computer and Software	86,390	-	23,472	109,862
Contract Care and Labor	539,086	-	80,542	619,628
Copier Expense	27,773	4,629	6,172	38,574
Food and Supplies	142,448	-	2,585	145,033
Full Day and Holiday Expenses	9,274	-	-	9,274
Liability Insurance	36,397	-	312	36,709
Licensing Fees	26,793	-	1,852	28,645
Marketing	42,667	-	-	42,667
Miscellaneous	31,957	-	30,225	62,182
Office Refreshments	-	-	3,994	3,994
Office Supplies	3,014	-	27,127	30,141
Postage and Printing	7,838	-	3,860	11,698
Professional Fees	-	-	22,422	22,422
Program Supplies	402,869	-	-	402,869
Property Maintenance and Insurance	18,983	-	9,491	28,474
Rent	551,651	-	8,750	560,401
Special Activities	227,886	-	-	227,886
Staff Recruitment and Screening	14,331	-	16,123	30,454
Staff Travel	87,055	-	1,528	88,583
Storage Building Rent	10,631	-	2,658	13,289
Swimming Expenses	6,572	-	-	6,572
Telephone	37,294	-	12,431	49,725
Training and Development	46,002	-	5,900	51,902
Transportation	65,569	-	115	65,684
Utilities	22,494	-	11,247	33,741
Vehicle Insurance and Expense	5,161	-	-	5,161
<b>Total Expenses Before Depreciation and In-Kind Expenses</b>	<b>8,205,080</b>	<b>36,458</b>	<b>1,057,506</b>	<b>9,299,044</b>
In-Kind Expense	2,463,369	-	-	2,463,369
Depreciation	16,618	-	35,050	51,668
<b>Total Expenses</b>	<b>\$ 10,685,067</b>	<b>\$ 36,458</b>	<b>\$ 1,092,556</b>	<b>\$ 11,814,081</b>

See accompanying Notes to Financial Statements.

**CLAYTON CHILD CARE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2014**

	Program Services	Fund Raising	Mangement and General	2014 Total
Salaries and Wages	\$ 3,947,499	\$ 17,150	\$ 869,101	\$ 4,833,750
Payroll Taxes	340,886	-	77,379	418,265
Health Insurance	311,942	-	109,601	421,544
Retirement Plan	22,081	-	12,506	34,587
Workers' Compensation Insurance	52,307	-	10,714	63,021
<b>Total Salaries and Related Expenses</b>				<b>5,771,167</b>
Automation Processing Fees	19,531	-	4,433	23,965
Appreciation and Awards Banquet	9,935	-	864	10,799
Auxiliary Child Care Services	30,343	-	-	30,343
Bank Charges	119,572	-	-	119,572
Communications	14,268	-	21,401	35,669
Community Relations	12,634	-	1,404	14,038
Computer and Software	44,076	-	21,709	65,785
Contract Care and Labor	574,687	-	17,774	592,460
Copier Expense	17,621	-	8,679	26,300
Food and Supplies	162,649	-	224	162,873
Full Day and Holiday expenses	15,232	-	-	15,232
Interest	-	-	950	950
Liability Insurance	38,202	-	386	38,588
Licensing Fees	17,217	-	-	17,217
Marketing	47,201	-	-	47,201
Miscellaneous	5,165	-	-	5,165
Office Refreshments	3,830	-	1,886	5,716
Office Supplies	8,628	-	12,942	21,570
Postage and Printing	6,318	-	3,112	9,430
Professional Fees	3,227	-	34,509	37,736
Program Supplies	374,454	-	-	374,454
Property Maintenance and Insurance	7,258	-	16,934	24,192
Rent	551,659	-	15,000	566,659
Special Activities	207,753	-	-	207,753
Staff Recruitment and Screening	31,326	-	3,481	34,807
Staff Travel	70,178	-	7,798	77,975
Storage Building Rent	14,321	-	3,580	17,902
Swimming Expenses	2,065	-	-	2,065
Telephone	44,869	-	-	44,869
Training and Development	41,630	-	4,626	46,255
Transportation	43,957	-	-	43,957
Utilities	13,436	-	31,350	44,786
Vehicle Insurance and Expense	6,464	-	6,464	12,928
<b>Total Expenses Before Depreciation and In-Kind Expenses</b>	<b>7,234,421</b>	<b>17,150</b>	<b>1,298,807</b>	<b>8,550,378</b>
In-Kind Expense	2,708,505	-	-	2,708,505
Depreciation	58,352	-	-	58,352
<b>Total Expenses</b>	<b>\$ 10,001,278</b>	<b>\$ 17,150</b>	<b>\$ 1,298,807</b>	<b>\$ 11,317,235</b>

See accompanying Notes to Financial Statements.

**CLAYTON CHILD CARE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (290,643)	\$ 102,037
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	51,668	58,352
Bad Debts	6,000	330
(Gain) Loss on Disposal of Property and Equipment	35,488	(15,646)
Non-Cash Donations of Property and Equipment	-	(10,200)
(Increase) Decrease in Operating Assets:		-
Accounts Receivable	45,111	22,720
Prepaid Expenses	(33,453)	(6,540)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(29,007)	(11,587)
Accrued Wages, Payroll Taxes and Employee Paid Time Off	(32,397)	5,038
Accrued Retirement Plan Payable	1,505	612
Net Cash Provided by (Used in) Operating Activities	(245,728)	145,116
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(3,612)	(35,206)
Proceeds from Sale of Property and Equipment	-	15,742
Net Cash Used in Investing Activities	(3,612)	(19,464)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Note Payable	34,431	43,032
Repayments of Note Payable	(41,241)	(75,530)
Net Cash Used in Financing activities	(6,810)	(32,498)
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(256,150)	93,154
Cash and Cash Equivalents - Beginning of Year	1,144,038	1,050,884
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 887,888	\$ 1,144,038
 <b>SUPPLEMENTAL DATA - INTEREST PAID</b>	\$ -	\$ 950

See accompanying Notes to Financial Statements.

**CLAYTON CHILD CARE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**NOTE 1 ORGANIZATION AND OPERATIONS**

Clayton Child Care, Inc. d.b.a. Clayton Youth Enrichment Services (the Organization) is a non-profit organization established in 1975 to provide programs for children, primarily before and after school on site at school campuses. The Organization also provides full day care at school sites during school breaks to school age children and care at country clubs for infants to 12 year olds. An active volunteer Board of Directors, consisting of 18-20 members, governs the agency. Programs are licensed by the Texas Department of Family and Protective Services or regulated by the Texas Education Agency. Currently, approximately 60% of the Organization's revenue is received from parent fees and approximately 40% is received from local school districts, other governmental type organizations, private donors, foundations and federal grants.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the financial statements.

**Financial Statement Presentation**

The Organization presents the financial statements in accordance with U.S. GAAP. As such, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. In addition, the Organization is required to present a statement of functional expenses and a statement of cash flows. All of the assets of the Organization at June 30, 2015 and 2014 were unrestricted.

**Reclassifications**

The accompanying financial statements for the year ended June 30, 2014 reflect certain reclassifications to conform to classifications adopted for the year ended June 30, 2015. These reclassifications have no effect on net assets as previously reported.

**Use of Estimates**

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

**CLAYTON CHILD CARE, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

The Organization is organized as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code. This section exempts the Organization from taxes on income. Accordingly, no provision for income taxes has been made in the financial statements. Taxes are paid on net income earned from sources unrelated to the exempt purposes.

The Organization files as a tax-exempt organization. The Organization's tax returns are subject to review and examination by federal and state authorities. Tax returns are open for audit by these authorities for three years from the due date of the return of the date actually filed. As of June 30, 2015 the tax return years open for audit include tax years ended subsequent to June 30, 2011.

**Functional Allocation of Expenses**

The costs of providing the child care programs and general and administrative expenses have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among these program and supporting services.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers any short-term investment convertible to cash within three months or less with little or no change in the principal amount to be a cash equivalent. Cash and cash equivalents at June 30, 2015 and 2014 consist of the following:

	2015	2014
Petty Cash on Hand	\$ 100	\$ 561
Interest-Bearing Money Market Accounts	661,717	660,981
Cash in Demand Deposit Account	226,071	482,496
Total Cash and Cash Equivalents	\$ 887,888	\$ 1,144,038

The Organization places its cash with high-credit-quality financial institutions and periodically maintains deposits in amounts that exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote.

**CLAYTON CHILD CARE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable and Concentration Risk**

The Organization's accounts receivable consist principally of childcare fees from parents and amounts due from various, specific grants. The Organization utilizes the allowance method for recognition of bad debts. A periodic review of aging and collections is performed to determine the balance in the allowance for doubtful accounts. The majority of the Organization's clients pay on a weekly basis. As of June 30, 2015 and 2014, the Organization had provided allowances for doubtful accounts of \$1,000 and \$1,000, respectively. Bad debt expense of \$6,000 and \$8,968 for the years ended June 30, 2015 and 2014, respectively, were netted against child service fees on the statements of activities.

Financial instruments that potentially subject the Organization to credit risk consist principally of accounts receivable. The Organization provides services primarily to individuals in Tarrant County.

As of June 30, 2015 and 2014, approximately 46% and 45%, respectively, of the Organization's accounts receivable was from local public school districts.

As of June 30, 2015 and 2014, approximately 48% and 46%, respectively, of the Organization's accounts receivable was from one federal pass-through grant. This grant, including in-kind revenue related directly to the grant, also comprised approximately 38% and 41%, respectively, of the Organization's revenue for the years ended June 30, 2015 and 2014.

**Property and Equipment**

The Organization capitalizes all expenditures for property and equipment in excess of \$5,000 having a useful life of one year or more. The fair market value of donated assets is similarly capitalized. Depreciation using the straight-line method is provided over the following estimated useful lives:

Office Building	30 Years
Building Improvements	30 Years
Office and Computer Equipment	3 - 10 Years
Vehicles	3 - 5 Years

Depreciation expense for the years ended June 30, 2015 and 2014 was \$51,668 and \$58,352, respectively.

**CLAYTON CHILD CARE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Long-Lived Assets**

The Organization periodically reviews the carrying value of its long-lived assets, including property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent fair value of long-lived assets is less than the carrying amount an impairment loss is recognized. The fair value of a long-lived asset is determined based upon the estimated future cash flows attributable to the asset.

**Contributions**

In accordance with U.S. GAAP, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All significant contributions received during the years ended June 30, 2015 and 2014 were unrestricted.

**Marketing and Advertising Costs**

Marketing and advertising costs are expensed as incurred.

**Recently Issued Accounting Pronouncements**

The Organization has determined that there have been no recently issued or adopted accounting standards that will have or had a material impact on its financial statements.

**NOTE 3 NOTES PAYABLE AND LINE OF CREDIT**

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

The Organization maintains a line of credit with Frost Bank which has a maximum available amount of \$500,000. Interest is payable monthly at prime plus 1.25%. The line of credit is secured by all real and personal property of Clayton Child Care, Inc. There was no outstanding amount on the line of credit as of June 30, 2015. The line of credit matured on 5/25/2015 and was renewed subsequent to year end.

**CLAYTON CHILD CARE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015 AND 2014**

**NOTE 4 IN-KIND CONTRIBUTIONS AND EXPENSES**

In-kind contributions to the Organization during the years ending June 30, 2015 and 2014 were primarily to supplement the 21<sup>st</sup> Century Community Learning Centers Cycle 7 Grant and provide a local match of the funds. The related expenses were broken down as follows:

	2015	2014
Services and Labor - Partner Organizations	\$ 587,685	\$ 397,820
Building Usage from Local Education Agencies	1,425,716	2,042,140
Food Supplies	449,969	268,545
Total In-Kind Expenses	\$ 2,463,370	\$ 2,708,505

**NOTE 5 RETIREMENT PLAN**

The Organization has a 401(k) Profit Sharing/Salary Reduction Plan that covers all eligible employees. Participation in the Plan is voluntary. At the discretion of the Organization, a matching contribution or a profit sharing contribution may be made to the Plan. During the years ending June 30, 2015 and 2014, the Organization contributed an amount equal to 100% of the first 3% and 2%, respectively, of the participating employees' pre-tax contribution. Employer accrued contributions as of June 30, 2015 and 2014 were \$36,552 and \$35,047, respectively. Total retirement plan expense, including plan administration, for the years ended June 30, 2015 and 2014 was \$36,777 and \$34,587, respectively.

**NOTE 6 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 22, 2016, the date on which the financial statements were available to be issued.



**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**

To the Board of Directors  
Clayton Child Care, Inc.  
Forth Worth, Texas

We have audited, in accordance with the 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 financial statements of Clayton Child Care, Inc. ("Clayton"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated February 22, 2016.

***Internal Control over Financial Reporting***

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors  
Clayton Child Care, Inc.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Clayton's financial statements are free of 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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Fort Worth, Texas  
February 22, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY *OMB CIRCULAR A-133*  
AND THE UGMS STATE OF TEXAS SINGLE AUDIT CIRCULAR**

To the Board of Directors  
Clayton Child Care, Inc.  
Forth Worth, Texas

**Report on Compliance for Each Major Program**

We have audited Clayton Child Care, Inc.'s ("Clayton") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *UGMS State of Texas Single Audit Circular* that could have a direct and material effect on each of Clayton's major federal and state programs for the year ended June 30, 2015. Clayton's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Clayton's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*; and the *UGMS State of Texas Single Audit Circular* (the Circular). Those standards, OMB Circular A-133 and the Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. A compliance audit includes examining, on a test basis, evidence about Clayton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of Clayton's compliance with those requirements.

To the Board of Directors  
Clayton Child Care, Inc.

**Opinion on Each Major Federal and State Program**

In our opinion, Clayton Child Care, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of Clayton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Clayton's internal control over compliance with the requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness on Clayton's internal control over compliance.

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

Our consideration of the 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 the internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control 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 OMB Circular A-133 and the State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Fort Worth, Texas  
February 22, 2016

**CLAYTON CHILD CARE, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS ON FEDERAL AND STATE AWARDS  
 YEAR ENDED JUNE 30, 2015**

**SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?                           yes              X   no
- Significant deficiency(ies) identified?                   yes              X   none reported

Noncompliance material to financial statements noted?

       yes              X   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?                           yes              X   no
- Significant deficiency(ies) identified?                   yes              X   none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 or the State of Texas Single Audit Circular?

       yes              X   no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal or State Program or Cluster</u>
84.287C	21 <sup>st</sup> Century Community Learning Centers

Dollar threshold used to distinguish between type A and type B programs:

  \$ 300,000  

Auditee qualified as low-risk auditee?

  X   yes                   no

**FINDINGS – FINANCIAL STATEMENT AUDIT**

A. Reportable Conditions in Internal Control

None

**FINDINGS AND QUESTIONED COSTS ON FEDERAL AND STATE AWARDS – Current Year**

None

**CLAYTON CHILD CARE, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED JUNE 30, 2015**

	Federal CFDA Number	Grant Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development</b>			
Pass-through Programs from:			
<b>City of Fort Worth</b>			
Community Development Block Grant	14.818	44913	\$ 12,793
<b>Total U.S. Department of Housing and Urban Development</b>			
			12,793
<b>U.S. Department of Education</b>			
Pass-through Programs from:			
<b>Texas Education Agency</b>			
21st Century Community Learning Centers	84.287C	146950167110012	136,839
21st Century Community Learning Centers	84.287C	156950167110012	1,761,848
<b>Total U.S. Department of Education</b>			
			1,898,687
<b>Total Federal Awards</b>			<b>\$ 1,911,480</b>

**CLAYTON CHILD CARE, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**JUNE 30, 2015**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal and state awards includes the federal grant activity of Clayton Child Care, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *UGMS State of Texas Single Audit Circular*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**NOTE 2 SUB-RECIPIENTS**

Of the federal expenditures presented in the schedule, Clayton Child Care, Inc. provided no federal or state awards to sub-recipients.

**NOTE 3 NON-CASH ASSISTANCE**

Clayton did not receive any non-cash assistance from federal or state awards for the year ended June 30, 2015.

**NOTE 4 LOANS**

At year-end, Clayton had no loans or loan guarantees outstanding with federal or state awarding agencies.