



**Child Care Associates and
Subsidiaries**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Child Care Associates
Fort Worth, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Child Care Associates (a nonprofit organization) and subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, 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 financial position of Child Care Associates and subsidiaries as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Child Care Associates and subsidiaries 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2022 Child Care Associates and subsidiaries adopted ASC 842 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Child Care Associates and subsidiaries' 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 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 generally accepted auditing standards 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 generally accepted auditing standards 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 Child Care Associates and subsidiaries' 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 Child Care Associates and subsidiaries' ability to continue as a going concern for a reasonable period of time.

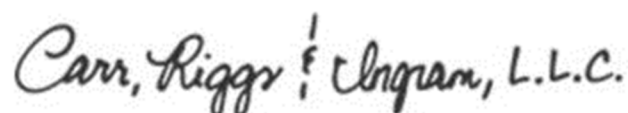
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state of Texas 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* and the Texas Grants Management Standards, is presented for purposes 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state of Texas awards 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 September 27, 2023 on our consideration of the Child Care Associates and subsidiaries' 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 the effectiveness of the Child Care Associates and subsidiaries' 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 Child Care Associates and subsidiaries' internal control over financial reporting and compliance.



CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama
September 27, 2023

Child Care Associates and Subsidiaries Consolidated Statements of Financial Position

<i>December 31,</i>	2022	2021
Assets		
Current assets		
Cash and cash equivalents	\$ 8,825,715	\$ 3,837,127
Grants receivable	1,582,403	3,677,232
Accounts receivable	1,528,086	1,200,985
Other receivables	652,896	584,962
Prepaid expenses	411,565	525,618
Total current assets	13,000,665	9,825,924
Noncurrent assets		
Property and equipment, net	3,765,684	4,040,571
Operating lease right-of-use assets, net	1,663,714	-
Total non-current assets	5,429,398	4,040,571
Total assets	\$ 18,430,063	\$ 13,866,495
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,867,626	\$ 3,422,780
Accrued salaries and benefits	970,118	788,735
Due to grantor - current portion	116,297	115,140
Current portion of operating lease liabilities	575,090	-
Total current liabilities	3,529,131	4,326,655
Noncurrent liabilities		
Due to grantor	1,507,883	1,624,112
Operating lease liabilities, less current portion	1,061,013	-
Total noncurrent liabilities	2,568,896	1,624,112
Total liabilities	6,098,027	5,950,767
Net assets		
Without donor restrictions	12,023,736	7,510,585
With donor restrictions	308,300	405,143
Total net assets	12,332,036	7,915,728
Total liabilities and net assets	\$ 18,430,063	\$ 13,866,495

The accompanying notes are an integral part of these consolidated financial statements.

Child Care Associates and Subsidiaries Consolidated Statements of Activities

<i>For the year ended December 31, 2022</i>	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Grant income	\$ 109,386,014	\$ -	\$ 109,386,014
Contract revenue	8,341,653	-	8,341,653
Other income	1,354,309	-	1,354,309
Contributions	830,058	286,138	1,116,196
Program service fees	636,254	-	636,254
Interest income	458	-	458
In-kind	3,820,799	-	3,820,799
Net assets released from restrictions	382,981	(382,981)	-
Total revenue and other support	124,752,526	(96,843)	124,655,683
Expenses			
<i>Program services</i>			
Early Education Program Services	1,098,787	-	1,098,787
Special Nutrition	689,306	-	689,306
Head Start/Early Head Start	24,300,158	-	24,300,158
Child Care Management Services			
Tarrant County	84,957,396	-	84,957,396
North Texas COG	1,138,937	-	1,138,937
Other Programs	3,919,791	-	3,919,791
Total program services	116,104,375	-	116,104,375
<i>Supporting services</i>			
General and administration	4,135,000	-	4,135,000
Total expenses	120,239,375	-	120,239,375
Change in net assets	4,513,151	(96,843)	4,416,308
Net assets at the beginning of year	7,510,585	405,143	7,915,728
Net assets at the end of the year	\$ 12,023,736	\$ 308,300	\$ 12,332,036

The accompanying notes are an integral part of these consolidated financial statements.

Child Care Associates and Subsidiaries
Consolidated Statements of Activities (Continued)

<i>For the year ended December 31, 2021</i>	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Grant income	\$ 82,755,869	\$ -	\$ 82,755,869
Miscellaneous income	4,487,383	-	4,487,383
Other Income	188,151	-	188,151
Contributions	1,089,724	160,600	1,250,324
Program service fees	367,829	-	367,829
Interest income	390	-	390
In-kind	2,742,787	-	2,742,787
Net assets released from restrictions	302,571	(302,571)	-
Total revenue and other support	91,934,704	(141,971)	91,792,733
Expenses			
<i>Program services</i>			
Early Education Program Services	663,448	-	663,448
Special Nutrition	536,322	-	536,322
Head Start/Early Head Start	24,321,114	-	24,321,114
Texas School Ready	93,378	-	93,378
Child Care Management Services			
Tarrant County	57,254,388	-	57,254,388
Other programs	1,823,873	-	1,823,873
Total program services	84,692,523	-	84,692,523
<i>Supporting services</i>			
General and administration	3,852,832	-	3,852,832
Total expenses	88,545,355	-	88,545,355
Change in net assets	3,389,349	(141,971)	3,247,378
Net assets at the beginning of year	4,121,236	547,114	4,668,350
Net assets at the end of the year	\$ 7,510,585	\$ 405,143	\$ 7,915,728

The accompanying notes are an integral part of these consolidated financial statements.

Child Care Associates and Subsidiaries
Consolidated Statements of Functional Expenses

	Program		
	Early Education Program Services	Special Nutrition	Head Start/ Early Head Start
<i>For the year ended December 31, 2022</i>			
Salary and fringe benefits	\$ 593,799	\$ -	\$ 12,689,413
Employee health benefits	76,442	-	1,878,433
Payroll taxes and other fringe	71,868	-	1,708,131
Professional fees	150,544	4,769	4,154,223
Educational supplies	4,084	12,150	65,170
Food	75,474	606,721	(94,519)
Household supplies	3,540	55,485	268,417
Office supplies	1,181	-	39,373
Other supplies	12,279	-	662,908
Telephone	6,204	-	140,704
Postage	26	672	1,216
Occupancy	57,111	-	1,509,592
Rental and equipment maintenance	5,119	-	182,824
Travel	960	-	27,552
Conferences, conventions and meetings	3,676	-	56,283
Provider payments	-	-	-
Insurance	13,588	-	255,030
Miscellaneous	13,903	9,509	246,387
Printing	238	-	4,202
Interest expense	-	-	1,531
Total expenses before depreciation and amortization	1,090,036	689,306	23,796,870
Depreciation and amortization	8,751	-	503,288
Total expenses	\$ 1,098,787	\$ 689,306	\$ 24,300,158

The accompanying notes are an integral part of these consolidated financial statements.

Services			Supporting Services		
Child Care Management Services		Other Programs	Total Program Services	General and Administration	Total 2022
North Texas COG	Tarrant County				
\$ 787,570	\$ 3,536,451	\$ 1,154,014	\$ 18,761,247	\$ 2,152,530	\$ 20,913,777
113,863	432,735	114,140	2,615,613	142,735	2,758,348
89,397	445,630	127,076	2,442,102	254,525	2,696,627
129,574	522,163	1,773,792	6,735,065	393,727	7,128,792
-	117,869	6,579	205,852	33	205,885
-	-	46	587,722	4,559	592,281
168	952	5,851	334,413	3,176	337,589
3,029	52,942	5,478	102,003	20,459	122,462
5,149	407,497	216,119	1,303,952	350,987	1,654,939
1,254	77,340	4,831	230,333	22,504	252,837
-	62,751	446	65,111	1,267	66,378
-	(23,946)	10,376	1,553,133	70,787	1,623,920
-	57,946	5,273	251,162	27,946	279,108
108	33,384	17,630	79,634	6,972	86,606
-	37	4,855	64,851	103,789	168,640
-	76,923,264	127,070	77,050,334	-	77,050,334
2,831	41,839	23,605	336,893	226,982	563,875
5,994	2,028,471	320,124	2,624,388	211,603	2,835,991
-	8,247	-	12,687	6,413	19,100
-	1,002	-	2,533	17,274	19,807
1,138,937	84,726,574	3,917,305	115,359,028	4,018,268	119,377,296
-	230,822	2,486	745,347	116,732	862,079
\$ 1,138,937	\$ 84,957,396	\$ 3,919,791	\$ 116,104,375	\$ 4,135,000	\$ 120,239,375

Child Care Associates and Subsidiaries
Consolidated Statements of Functional Expenses (Continued)

	Program		
	Early Education Program Services	Special Nutrition	Head Start/ Early Head Start
<i>For the year ended December 31, 2021</i>			
Salary and fringe benefits	\$ 326,470	\$ -	\$ 12,802,004
Employee health benefits	36,254	-	2,030,888
Payroll taxes and other fringe	39,693	-	1,669,309
Professional fees	74,536	3,447	2,770,334
Educational supplies	33,573	3,500	900,202
Food	26,409	437,470	52,173
Household supplies	2,581	91,028	65,988
Office supplies	4,790	124	104,056
Other supplies	6,698	-	714,904
Telephone	4,718	-	132,081
Postage	133	256	14,613
Occupancy	49,157	-	1,729,422
Rental and equipment maintenance	31,326	-	455,529
Travel	1,949	-	28,156
Conferences, conventions and meetings	152	-	35,547
Provider payments	-	-	-
Insurance	4,965	-	176,873
Miscellaneous	9,555	497	376,675
Printing	607	-	5,796
Interest expense	-	-	-
Total expenses before depreciation and amortization	653,566	536,322	24,064,550
Depreciation and amortization	9,882	-	256,564
Total expenses	\$ 663,448	\$ 536,322	\$ 24,321,114

The accompanying notes are an integral part of these consolidated financial statements.

Services					Supporting Services	
Texas School Ready	Child Care Management Services		Other Programs	Total Program Services	General and Administration	Total 2021
	Tarrant County					
\$ 70,174	\$ 2,848,941	\$ 473,314	\$ 16,520,903	\$ 2,028,890	\$ 18,549,793	
8,812	400,858	28,361	2,505,173	185,314	2,690,487	
9,628	353,504	49,907	2,122,041	258,483	2,380,524	
-	140,730	378,590	3,367,637	342,035	3,709,672	
-	182,844	157,417	1,277,536	-	1,277,536	
-	-	-	516,052	2,251	518,303	
-	16	81,070	240,683	1,432	242,115	
-	28,392	1,187	138,549	21,412	159,961	
980	707,077	130,994	1,560,653	217,641	1,778,294	
934	67,941	1,505	207,179	28,128	235,307	
-	47,052	-	62,054	2,116	64,170	
-	232,406	3,073	2,014,058	141,413	2,155,471	
2,280	32,936	14,884	536,955	17,632	554,587	
319	4,259	1,460	36,143	6,621	42,764	
-	-	141	35,840	20,269	56,109	
-	52,171,709	317,337	52,489,046	-	52,489,046	
218	17,388	8,731	208,175	261,701	469,876	
33	2,172	175,902	564,834	181,936	746,770	
-	13,198	-	19,601	6,673	26,274	
-	-	-	-	18,077	18,077	
93,378	57,251,423	1,823,873	84,423,112	3,742,024	88,165,136	
-	2,965	-	269,411	110,808	380,219	
<u>\$ 93,378</u>	<u>\$ 57,254,388</u>	<u>\$ 1,823,873</u>	<u>\$ 84,692,523</u>	<u>\$ 3,852,832</u>	<u>\$ 88,545,355</u>	

Child Care Associates and Subsidiaries Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2022	2021
Operating Activities		
Change in net assets	\$ 4,416,308	\$ 3,247,378
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	279,967	380,219
Amortization of right-of-use assets	582,112	-
Changes in operating assets and liabilities		
Grants receivable	2,094,829	(2,397,429)
Accounts receivable	(327,101)	-
Other receivables	(67,934)	(112,523)
Prepaid expenses	114,053	(88,358)
Operating lease liabilities	(609,723)	-
Accounts payable	(1,555,154)	1,739,615
Accrued salaries and benefits	181,383	187,952
Net cash provided by (used in) operating activities	5,108,740	2,956,854
Investing Activities		
Purchases of property and equipment	(5,080)	(178,585)
Net cash provided by (used in) investing activities	(5,080)	(178,585)
Financing Activities		
Principal payments on note payable - grantor	(115,072)	(113,923)
Net cash provided by (used in) financing activities	(115,072)	(113,923)
Net change in cash and cash equivalents	4,988,588	2,664,346
Cash and cash equivalents at beginning of year	3,837,127	1,172,781
Cash and cash equivalents at end of year	\$ 8,825,715	\$ 3,837,127
Schedule of Noncash Transactions		
Lease liabilities arising from obtaining right-of-use assets		
Operating leases	\$ 32,882	\$ -
Schedule of Certain Cash Flow Information		
Cash paid for interest	\$ 19,807	\$ 18,077

The accompanying notes are an integral part of these consolidated financial statements.

Child Care Associates and Subsidiaries

Notes to Consolidated Financial Statements

Note 1: DESCRIPTION OF THE ORGANIZATION

Child Care Associates (CCA) is a multi-funded, private, not-for-profit organization that provides comprehensive childcare and development services in North Texas. CCA's mission is to assist family successes through excellence in comprehensive early education and development services.

Curantis Group, LLC (Curantis), a wholly owned subsidiary of CCA, was organized during 2021 under the laws of the state of Texas as a social enterprise to deliver mission-related services that build sustainable revenues for the nonprofit. Curantis offers customized service solutions for caregivers in the childcare industry to include child care business coaching, child care knowledge hub, child care quality and child care training and technical assistance.

Pre-K Today, LLC (Pre-K), a wholly-owned subsidiary of CCA, was organized during 2021 under the laws of the state of Texas as a contractor to provide additional childcare services in North Texas.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

Principles of Consolidation

These consolidated financial statements include the accounts of CCA and its wholly-owned subsidiaries, Curantis and Pre-K (collectively, CCA). All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of U.S. GAAP consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Program Services

The Agency's program services consist of the following:

Early Education Program Services - The Agency provides direct early education services for children 6 weeks – 5 years old in center, partnership classroom, and home based programming by providing academic and social/emotional growth through evidence-based, culturally responsive, and quality early education and child care programs. Direct care services include Head Start and Early Head Start funded programming that provide access to low-income families as well as Prekindergarten services. The Agency also delivers a pregnant mother program for pregnant mothers and children ages birth to 2 months.

Child Care Associates and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Services (continued)

Child Care Management Services – The Agency manages Texas Workforce Scholarship program for 14 counties in the DFW areas by offsetting cost of child care for parents who are working or getting an education, improving the early education system by increasing the number of Texas Rising Star (TRS) quality-rated child care programs, and investing in quality improvements the TRS child care programs.

Special Nutrition – The Agency provides meals to qualifying children serviced through early education direct care programs.

Other Programs – The Agency provides additional services to help educate and train early childhood educators and providing incentives to improve the early education system locally and statewide.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of 90 days or less.

Grants Receivable

Grants receivable represent pending reimbursements of program expenses incurred as of December 31, 2022 and 2021, both billed and unbilled, and expected to be received from the funding sources in the subsequent year. Management considers receivables at December 31, 2022 and 2021 to be fully collectible. Accordingly, no allowance for delinquent grants and other receivables was made in the accompanying consolidated financial statements.

Accounts Receivable and Other Receivables

Accounts receivable represent amounts due from customers and others which are expected to be collected within twelve months. Management evaluates its accounts receivable on an ongoing basis by analyzing customer relationships and previous payment histories. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in the existing accounts based on current market conditions. Management considers accounts and other receivables at December 31, 2022 and 2021 to be fully collectible. Accordingly, no allowance for delinquent accounts and other receivables was made in the accompanying consolidated financial statements.

Property and Equipment

All acquisitions of property and equipment in excess of \$5,000 and all expenditures for maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Repairs and maintenance are expensed as incurred. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

Leases

The Agency leases office space, child care center space and equipment. The Agency determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities the consolidated statements of financial position.

Child Care Associates and Subsidiaries Notes to Consolidated Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (continued)

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Agency uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Agency will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Net Assets

CCA reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of CCA, the environments in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Revenue Recognition

Revenue from dues and fees and payments under various contracts is recognized as revenue when performance obligations under the terms of the contracts with customers are satisfied. Revenue received in advance is deferred and recognized over the periods to which the dues and fees relate. These amounts are included in performance obligation liabilities within the consolidated statements of financial position.

A significant portion of the Agency's grants and contracts are from government agencies. The benefits received by the public as a result of the assets transferred are not equivalent to commensurate value received by the government agencies and are therefore not considered exchange transactions. Grants and contracts are analyzed for measurable performance-related barriers or other barriers. Revenue is recognized as barriers are met. Funds received from non-exchange transactions in advance of barriers being met are recorded as refundable advances.

Child Care Associates and Subsidiaries

Notes to Consolidated Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)

Contributions are recognized when cash, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly removed the conditions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as net assets without donor restrictions.

Donated Assets

Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

Donated Services, Materials and Facilities

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by CCA. Donated services, materials and facilities are recorded at their estimated fair values.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Directly identifiable expenses are charged to programs and supporting services that benefited directly from the expense. Certain other costs have been allocated among the programs and supporting services benefited in accordance with CCA's cost allocation plan. General and administrative expenses include those expenses that provide for the overall support and direction of CCA.

Allocable salaries and wages, fringe benefits, travel costs, training/conferences/seminars, contractual expenses, and occupancy/facilities expenses of program centers are allocated proportionate to the number of children enrolled in each program. Occupancy/facilities expenses for administrative buildings are allocated based on ratio of square footage utilization by staff. Costs incurred for administration related to equipment rental and repairs, phones and internet, office expenses and supplies, and insurance are allocated based on ratio of square footage utilization by staff while similar costs incurred at program centers is allocated proportionate to the number of children enrolled in each program. Public relations and depreciation are allocated based on a ratio of each programs expense as a percentage of total expenses. Unallowable costs are allocated directly to unrestricted funds.

Advertising

CCA, Curantis and Pre-K use advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the years ended December 31, 2022 and 2021, advertising costs were immaterial.

Child Care Associates and Subsidiaries Notes to Consolidated Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

CCA has been granted an exemption from income taxes under Internal Revenue Code Section 501(c)(3) as a non-profit corporation. As required by Internal Revenue Service regulations, CCA annually files Form 990, "Return of Agency Exempt from Income Tax" with the Internal Revenue Service. As single member limited liability companies, Curantis and Pre-K are treated as disregarded entities for tax purposes. As such, these two subsidiaries are included in CCA's annual Form 990 for tax reporting purposes.

CCA's policy is to record interest and penalties related to taxes in interest expense on the consolidated financial statements; however, CCA did not have any interest or penalties related to taxes in fiscal year 2022.

CCA applies the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the consolidated financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. CCA believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open tax years (after 2019 for federal and state) based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter. CCA has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits as of December 31, 2022 and 2021.

Subsequent Events

Management has evaluated subsequent events through September 27, 2023, the date of issuance of these consolidated financial statements. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

Recent Accounting Pronouncements

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. This change in accounting principal did not have a material impact on the financial statements. See Note 10 for additional information.

In February 2016, the FASB issued guidance ASC 842, *Leases* to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the consolidated statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

CCA adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

Child Care Associates and Subsidiaries Notes to Consolidated Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (continued)

CCA elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, CCA recognized on January 1, 2022 (beginning of the year of adoption) a lease liability and right-of-use asset at the carrying amount of the capital lease obligations of \$2,251,589. CCA also recognized on January 1, 2022 a lease liability of \$2,251,589, which represents the present value of the remaining operating lease payments, discounted using our risk free rate.

The standard had a material impact on CCA's consolidated statements of financial position, but did not have an impact on the consolidated statements of activities, nor consolidated statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while the accounting for finance leases remained substantially unchanged.

Note 3: LIQUIDITY AND FINANCIAL ASSET AVAILABILITY

CCA, Curantis and Pre-K maintains their financial assets primarily in cash and cash equivalents to provide liquidity to ensure funds are available as expenditures come due. The following reflects the financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use within one year of the consolidated statement of financial position date because of contractual or donor-imposed restrictions.

<i>December 31,</i>	2022	2021
Total assets at year end	\$ 18,430,063	\$ 13,866,495
Less non-financial assets		
Prepaid expenses and other assets	(411,565)	(525,618)
Operating lease right-of-use assets, net	(1,663,714)	-
Property and equipment, net	(3,765,684)	(4,040,571)
Financial assets, at year end	12,589,100	9,300,306
Less those not available for general expenditures within one year, due to contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	(308,300)	(405,143)
Financial assets available to meet cash needs for general expenditures within one year	\$ 12,280,800	\$ 8,895,163

CCA is principally supported by federal and state grant awards. Management's goal is to maintain available financial assets to meet its next 90 days of operating expenses, exclusive of certain grant expenses which are funded immediately upon disbursement.

Child Care Associates and Subsidiaries Notes to Consolidated Financial Statements

Note 4: GRANTS RECEIVABLE

Grants receivable consists of the following:

<i>December 31,</i>	2022	2021
U.S. Department of Health and Human Services		
Head Start	\$ 796,111	\$ 765,998
Child Care Management System Program	737,901	2,755,880
U.S. Department of Agriculture		
Child and Adult Care Food Program	48,391	44,689
U.S. Department of Housing and Urban Development		
Community Development Block Grants/Entitlement Grants	-	110,590
Texas School Readiness Program	-	75
Grants receivable, net	\$ 1,582,403	\$ 3,677,232

Note 5: PROPERTY AND EQUIPMENT

The components of property and equipment at December 31, 2022 and 2021, are as follows:

<i>December 31,</i>	Estimated Useful Lives (in years)	2022	2021
Buildings	10-50	\$ 5,260,639	\$ 5,260,639
Equipment	3-5	2,973,483	3,009,876
	Shorter of useful life of the asset		
Leasehold improvements	or life of the	4,134,717	4,134,717
Total depreciable property and equipment		12,368,839	12,405,232
Less accumulated depreciation		(9,808,297)	(9,569,803)
Total depreciable property and equipment, net		2,560,542	2,835,429
Construction in process		6,400	6,400
Land		1,198,742	1,198,742
Property and equipment, net		\$ 3,765,684	\$ 4,040,571

Depreciation expense for the years ended December 31, 2022 and 2021 was \$279,967 and \$380,219, respectively.

Note 6: LEASES

The Agency has operating leases for office space, classrooms and equipment. The leases have remaining lease terms of 5 months to 7 years.

Operating lease costs were \$605,019 for the year ended December 31, 2022.

Child Care Associates and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: LEASES (Continued)

Weighted average remaining lease term and discount rates consist of the following:

<i>For the year ended December 31,</i>	<i>2022</i>
Weighted average remaining lease term	
Operating leases	4.89 years
Weighted average discount rate	
Operating leases	1.20%

Future minimum lease payments under non-cancellable leases as of December 31, 2022, were as follows:

<i>For the years ending December 31,</i>	<i>Operating Leases</i>
2023	\$ 603,648
2024	247,547
2025	207,428
2026	191,388
2027	188,351
Thereafter	260,641
<hr/>	
Total future minimum lease payments	1,699,003
Less imputed interest	(62,900)
<hr/>	
Present value of lease liabilities	\$ 1,636,103
<hr/>	
Reported as of December 31, 2022	
Other current liabilities	\$ 575,090
Other long-term liabilities	1,061,013
<hr/>	
Total	\$ 1,636,103
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Child Care Associates and Subsidiaries
Notes to Consolidated Financial Statements

Note 6: LEASES (Continued)

Minimum lease payments under operating leases as of December 31, 2021 for future years are as follows:

Year ending December 31,

2022	\$	629,228
2023		494,209
2024		269,312
2025		195,862
2026		171,800
Thereafter		364,267
Total minimum payments required		\$ 2,124,678

Note 7: ACCRUED SALARIES AND BENEFITS

Accrued salaries and benefits consist of the following:

<i>December 31,</i>	2022	2021
Accrued salaries, payroll taxes and related fringe	\$ 970,118	\$ 788,735
Total	\$ 970,118	\$ 788,735

Note 8: DUE TO GRANTOR

Due to grantor represents an amount owed back to the U.S. Department of Health and Human Services for disallowed costs. The disallowed funds are a result of CCA not properly allocating joint costs and indirect program costs to its Head Start and Early Head Start programs during a prior period.

Due to grantor consists of the following:

<i>December 31,</i>	2022	2021
Due to grantor payable is due to U.S. Department of Health and Human Services in monthly installments of \$11,000 bearing interest at 1.00% annually, maturing February 2036.	\$ 1,624,180	\$ 1,739,252

Child Care Associates and Subsidiaries Notes to Consolidated Financial Statements

Note 8: DUE TO GRANTOR (Continued)

The principal amounts of note payable maturing subsequent to December 31, 2022 are as follows:

2023	\$	116,297
2024		117,466
2025		118,646
2026		119,837
2027		121,041
Thereafter		1,030,893
	\$	<u>1,624,180</u>

Note 9: REVENUE

CCA's customers are primarily the parents of children enrolled in childcare programs in Tarrant County in the State of Texas. Customers can obtain subsidized assistance through federal, state, county or municipal governments or agencies, where all of a portion of the childcare fees are paid by these third-party entities on behalf of the customers. Program service fees are typically collected at the beginning of the week or month of service. All program service fee revenue is recognized at the point in time that related childcare services are performed.

The Curantis Group LLC's customers are primarily the child care providers that receive funding from the Texas Workforce Commission in the State of Texas. Contract revenues are typically collected at the completion of the required deliverables for business coaching and knowledge hub. All contract revenue is recognized at the point in time that related deliverables are completed.

Disaggregated Revenue

A summary of disaggregated revenue information follows:

<i>For the years ended December 31,</i>	2022	2021
Contracts with customers		
<i>Recognized at a point in time</i>		
Program service fees	\$ 636,254	\$ 367,829
Contract revenues	8,341,653	4,487,383
Other revenue and support		
Grant income	109,386,014	82,755,869
Misc income	1,354,309	188,151
Contributions	1,116,196	1,250,324
Interest income	458	390
In-kind	3,820,799	2,742,787
Total revenue	\$ 124,655,683	\$ 91,792,733

Child Care Associates and Subsidiaries Notes to Consolidated Financial Statements

Note 10: DONATED SERVICES, MATERIALS, AND FACILITIES

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skill, are performed by people with those skills, and would otherwise be purchased by CCA.

Significant services, materials, and facilities are donated to CCA by various individuals and organizations as part of its Head Start program. Donated materials and facilities were recorded at fair market value at the date of donation, and have been included in revenue and expenses for the year. Donated professional services are valued based on the fair market value of the services donated.

Donated non-professional services have not been recognized in the Consolidated Statements of Activities in accordance with FASB ASC 958-605. The non-professional services reported below are based on time sheets maintained on the volunteers, using reasonable rates.

Donated space is valued at the fair value of similar properties available in commercial real estate listings based on the most recent appraisal received. Donated services are valued using the professional's rates that they charge for their services. Donated goods are valued at the wholesale prices that would have been received for selling similar products.

Donated materials, facilities, and services are as follows:

<i>For the years ended December 31,</i>	Head Start	Corporate Services	2022	2021
Program supplies	\$ 146,389	\$ -	\$ 146,389	\$ 42,195
Professional services	2,739,990	18,000	2,757,990	2,149,449
Facilities	916,420	-	916,420	551,143
In-kind contributions reflected				
in the consolidated statements of				
activities				
	3,802,799	18,000	3,820,799	2,742,787
Nonprofessional services	761,391	-	761,391	1,454,695
Total in-kind contributions	\$ 4,564,190	\$ 18,000	\$ 4,582,190	\$ 4,197,482

Child Care Associates and Subsidiaries Notes to Consolidated Financial Statements

Note 11: NET ASSETS WITH DONOR RESTRICTIONS

During 2021 and 2022, CCA received certain contributions which were limited as to use. The portions of these contributions which had not been expended for donor-designated purposes are included in net assets with donor restrictions on the consolidated statements of activities. A summary of the activity in net assets with donor restrictions is summarized by donor-designated purposes as follows:

	Innovation Studio	NAEYC Essentials PNC Grant	Institute to Advance Child Care	ECE Shared	Early Ed Essentials	Nature Filled Classrooms
Net assets with donor restrictions at January 1, 2021	\$ 42,125	\$ -	\$ -	\$ 3,442	\$ 92,710	\$ 40,500
Contributions	-	-	-	-	-	-
Assets released from restrictions through qualifying expenses	-	-	-	(3,442)	(92,710)	(37,974)
Net assets with donor restrictions at December 31, 2021	42,125	-	-	-	-	2,526
Contributions	-	100,000	136,000	-	-	50,000
Assets released from restrictions through qualifying expenses	-	(10,000)	(130,524)	-	-	(7,527)
Net assets with donor restrictions at December 31, 2022	\$ 42,125	\$ 90,000	\$ 5,476	\$ -	\$ -	\$ 44,999

	Happy Bagget Fund	Morris NAEYC	Tucker Renovation	Morris Data Performance	Total
Net assets with donor restrictions at January 1, 2021	\$ 71,337	\$ 247,000	\$ 50,000	\$ -	\$ 547,114
Contributions	-	-	-	160,600	160,600
Assets released from restrictions through qualifying expenses	(25)	(118,420)	(50,000)	-	(302,571)
Net assets with donor restrictions at December 31, 2021	71,312	128,580	-	160,600	405,143
Contributions	138	-	-	-	286,138
Assets released from restrictions through qualifying expenses	-	(125,807)	-	(109,123)	(382,981)
Net assets with donor restrictions at December 31, 2022	\$ 71,450	\$ 2,773	\$ -	\$ 51,477	\$ 308,300

A description of each project or program for which restricted contributions were made follows:

Innovation Studio - Donor imposed restrictions require expenditure of related contributions for establishing an Innovation Studio with child studios, adult studios and relate infrastructure.

NAEYC Essentials PNC Grant – Donor imposed restrictions require expenditures on National Association for the Education of Young Children (NAEYC) accreditation for supplies and training.

Child Care Associates and Subsidiaries Notes to Consolidated Financial Statements

Note 11: NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Institute to Advance Child Care – Donor imposed restrictions require expenditures related to contributions in support of the Institute to Advance Child Care (IACC). The IACC division of CCA focuses on the belief that that all children 0-5, regardless of neighborhood or circumstance deserve the benefits of high-quality early education and care. The division seeks to ideate and scale programmatic and policy frameworks that directly address and dismantle the many layers of inequities that currently exist in the early learning system.

ECE Shared - Donor imposed restrictions require expenditure of related contributions in support of the TX Childcare Tools platform and to provide related support across the State of Texas.

Early Ed Essentials - Donor imposed restrictions require expenditure related contributions in support of improving educational leadership in Early Education.

Nature Filled Classrooms - Donor imposed restrictions require expenditures related to natural play-based early learning through professional development training, coaching, and enrichment of nature support play based experiences.

Happy Bagget Fund - Fund established to improve the quality of early childhood campuses, play areas, furnishing. Board of Directors have after time restriction is release may redirect funds to meet any organizational needs.

Morris NAEYC - Donor imposed restriction for Expanding quality Early Education and Care through Policy and NAEYC accreditation.

City of Arlington (Tucker Renovation) - Donor imposed restriction to support Infant and Toddler Early Education at Tucker Tomorrow Early Childhood Campus.

Morris Data Performance - Data Donor imposed restrictions specific to Data and Performance Team Building Capacity investment.

Note 12: CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject CCA to concentrations of credit risk consist principally of cash and receivables.

As of December 31, 2022, deposits in financial institutions exceeded the collateral thereon and the amounts insured by the Federal Deposit Insurance Corporation (FDIC) and Securities Investors Protection Corporation (SPIC) by \$7,506,606. CCA and subsidiaries' deposits have exceeded collateralized and insured amounts at other various times during the year as well; however, CCA monitors credit worthiness of each financial institution with which it conducts business and has not experienced any losses in its accounts. CCA believes it is not exposed to any significant risk on cash.

Credit risk with respect to receivables is limited because the amounts are primarily receivable from state and local governmental agencies. CCA believes it is not exposed to any significant risk on receivables.

Child Care Associates and Subsidiaries

Notes to Consolidated Financial Statements

Note 13: RETIREMENT PLAN

CCA and subsidiaries provide an employee benefit retirement plan established pursuant to Section 403(b) of the Internal Revenue Code which covers substantially all employees. An employee is eligible to participate and receive employer matching contributions immediately upon employment. Employees may elect to contribute up to the maximum amount allowed in accordance with Section 403(b) of the Internal Revenue Code. CCA, Curantis and Pre-K makes base annual contributions to each participant in the amount of 4% of eligible compensation and matches employee contributions equal to 50% of the first 4% of compensation. Contributions totaled \$746,280 and \$731,434 for 2022 and 2021, respectively.

Note 14: RISK MANAGEMENT

CCA, Curantis and Pre-K are exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees, employee's health insurance and life, and natural disasters. Management manages these risks of loss through the purchase of various insurance policies.

Note 15: CONTINGENCIES

Grant monies received and disbursed by CCA are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon experience, CCA does not believe that such disallowance, if any, would have a material effect on its financial position.

From time to time, in the ordinary course of business, CCA, Curantis or Pre-K may be party to various lawsuits, claims or assessments. In the opinion of management, is not party to any action that will have a material adverse effect on CCA, Curantis or Pre-K's business, financial position, results of operations or cash flows.

Child Care Associates
Schedule of Expenditures of Federal and State of Texas Awards
For the Year Ended December 31, 2022

Grantor/Pass-through Grantor/ Program Title	Assistance Listing Number	Agency or Pass-through Number	Funds Provided to Subrecipients	Expenditures
U.S. Department of Health and Human Services				
Direct Award:				
Head Start**	93.600	06HP000181-03-00	\$ -	\$ 220,734
Head Start**	93.600	06HP000181-04-00	-	1,121,383
Head Start**	93.600	06CH011569-01-00	-	433,236
Head Start**	93.600	06CH011569-02-00	-	9,875,275
Head Start**	93.600	06CH011569-03-00	-	10,620,985
		COVID-19		
COVID-19 Head Start**	93.600	06HE000376-01-C5	-	221,544
Subtotal 93.600/ Head Start Cluster			-	22,493,157
Pass-through from Tarrant County Workforce Development Board				
Child Care Management Services				
Child Care and Development Fund Cluster				
Tarrant County CCMS Master Contract #20097221				
Child Care Mandatory and Matching Funds of the				
Child Care and Development Fund*	93.596	03090Y00	-	21,642,411
Child Care and Development Block Grant*	93.575	0309Y00	-	44,980,004
COVID-19 Child Care and Development Block Grant*	93.575	COVID-19 03090Y00	-	11,835,615
Pass-through North Central Texas Council of Governments				
Child Care and Development Block Grant*	93.575	FY23-TWC-01	-	998,325
Total Child Care and Development Fund Cluster			-	79,456,355
Pass-through from Tarrant County Workforce Development Board				
Social Services Block Grant	93.667	03090Y00	-	131,987
Total U.S. Department of Health and Human Services			-	102,081,499

-Continued-

Child Care Associates

Schedule of Expenditures of Federal and State of Texas Awards (Continued)
For the Year Ended December 31, 2022

Grantor/Pass-through Grantor/ Program Title	Assistance Listing Number	Agency or Pass-through Number	Funds Provided to Subrecipients	Expenditures
U. S. Department of Agriculture Pass-through from Texas Department of Agriculture Child and Adult Care Food Program	10.558	02048	-	649,251
U. S. Department of Housing and Urban Development Pass-through from the City of Arlington, TX Community Development Block Grants/ Entitlement Grants***	14.218	COVID-19	-	147,937
Total U.S. Department of Housing and Urban Development			-	147,937
U.S. Department of Treasury Pass-through from Tarrant County COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	COVID-19	-	539,795
Total U.S. Department of Treasury			-	539,795
Total Expenditures of Federal Awards			\$ -	\$ 103,418,482
* Child Care and Development Fund Cluster				
**Head Start Cluster				
***CDBG - Entitlement Grants Cluster				
Texas Department of Family and Protective Services				
Pass-through from Tarrant County Workforce Development Board Child Care Management Services Tarrant County CCMS Master Contract #20097221 State General Revenue		03090Y00	-	6,548,898
Texas Department of Family and Protective Services USDA Healthier Gold Grant		E3E-21-018	-	37,134
Total expenditures of State of Texas awards			\$ -	\$ 6,586,032

Child Care Associates

Notes to Schedule of Expenditures of Federal and State of Texas Awards

Note 1: BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State of Texas Awards (the Schedule) was prepared on the modified accrual basis of accounting. The modified accrual basis differs from the full accrual basis of accounting in that expenditures for property and equipment are expensed when incurred, rather than being capitalized and depreciated over their useful lives, and expenditures for the principal portion of debt service are expensed when incurred, rather than being applied to reduce the outstanding principal portion of debt, which conforms to the basis of reporting to grantors for reimbursement under the terms of CCA's federal and state grants.

Note 2: INDIRECT COST RATE

The accompanying Schedule includes indirect costs charged utilizing CCA's authorized federal indirect cost rate of 13.60%. Due to this, CCA did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3: BASIS OF PRESENTATION

The accompanying Schedule summarizes the federal and state expenditures of CCA under programs of the federal government and state of Texas for the year ended December 31, 2022. The amounts reported as federal and state grant expenditures were obtained from CCA's general ledger. Because the Schedule presents only a selected portion of the operations of CCA, it is not intended to and does not present the financial position, changes in net assets and cash flows of CCA.

For purposes of the Schedule, federal and state awards include all grants, contracts, and similar agreements entered into directly with the federal government, State of Texas, and other pass-through entities. Payments received for goods or services provided as a vendor do not constitute federal awards for purposes of the Schedule. CCA has obtained Assistance Listing Number (ALN) numbers to ensure that all programs have been identified in the Schedule.

Clusters

Federal programs with different ALN numbers that are closely related because they share common compliance requirements are defined as a cluster by the Uniform Guidance. Child Care and Development Block Grant (ALN 93.575) and Child Care Mandatory and Matching Funds of the Child Care and Development Fund (ALN 93.596) are reported as the CCDF Cluster, the Head Start (ALN 93.600) is reported as the Head Start Cluster and the Community Development Block Grants/Entitlement Grants (ALN 14.218) are reported as the CDBG - Entitlement Grants Cluster in the Schedule.

Note 4: FEDERAL PASS-THROUGH FUNDS

CCA is also the sub-recipient of federal funds that have been subjected to testing and are reported as expenditures and listed as federal pass-through funds. Federal awards other than those indicated as pass-through funds are considered to be direct.

Child Care Associates

Notes to Schedule of Expenditures of Federal and State of Texas Awards

Note 5: RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS

The amounts reflected in the financial reports submitted to the awarding federal, state and/or pass-through agencies and the Schedule may differ. Some of the factors that may account for any difference include the following:

- CCA's fiscal year end may differ from the program's year end.
- Accruals recognized in the Schedule, because of year end procedures, may not be reported in the program financial reports until the next program reporting period.
- Fixed asset purchases and the resultant depreciation charges are recognized as fixed assets in CCA's financial statements and as expenditures in the program financial reports and the Schedule.

Note 6: CONTINGENCIES

Grant monies received and disbursed by CCA are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based upon our experience, CCA does not believe that such disallowance, if any, would have a material effect on the financial position of CCA. As of December 31, 2022, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

Note 7: NONCASH ASSISTANCE

CCA did not receive any federal noncash assistance for the fiscal year ended December 31, 2022.

Note 8: SUBRECIPIENTS

CCA did not provide federal funds to subrecipients for the fiscal year ended December 31, 2022.

Note 9: LOANS AND LOAN GUARANTEES

CCA did not receive any loans or loan guarantees for the year ended December 31, 2022.

Note 10: FEDERALLY FUNDED INSURANCE

CCA did not have any federally funded insurance required to be reported on the Schedule for the fiscal year ended December 31, 2022.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Child Care Associates
Fort 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 consolidated financial statements of Child Care Associates (a nonprofit organization), (CCA), and subsidiaries (collectively, the Agency) which comprise the consolidated statement of financial position as of December 31, 2022, 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 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Agency's 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 entity'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.

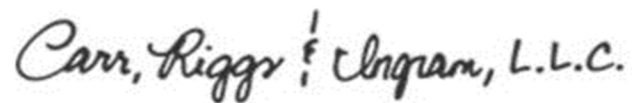
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 consolidated financial statements. 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 handwritten signature in black ink that reads "Carr, Riggs & Ingram, L.L.C." in a cursive script.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama
September 27, 2023

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND TEXAS GRANTS MANAGEMENT STANDARDS

Board of Directors
Child Care Associates
Fort Worth, Texas

Report on Compliance for Each Major Federal and State of Texas Program

Opinion on Each Major Federal Program

We have audited Child Care Associates' (the Agency) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and Texas Grants Management Standards that could have a direct and material effect on each of the Agency's major federal and state programs for the year ended December 31, 2022. The Agency'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.

In our opinion, the Agency 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 and state programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal and State Program

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 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) and the Texas Grants Management Standards (Texas GMS). Our responsibilities under those standards, the Uniform Guidance and Texas GMS are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Agency 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 and state program. Our audit does not provide a legal determination of the Agency'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 Agency's federal and state 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 Agency'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 generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance and Texas GMS 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 Agency's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance and Texas GMS, 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 Agency'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 Agency'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 and Texas GMS, but not for the purpose of expressing an opinion on the effectiveness of the Agency'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.

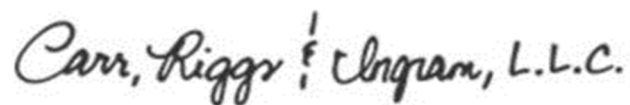
Report on Internal Control over Compliance

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 or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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 internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above 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 is 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 and Texas GMS. Accordingly, this report is not suitable for any other purpose.



CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama
September 27, 2023

Child Care Associates
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

Section I – Summary of Auditors' Results

Financial Statements

- | | |
|--|------------|
| 1. Type of auditors' report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| c. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|--|------------|
| 1. Type of auditors' report issued on compliance for major programs | Unmodified |
| 2. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a)? | None noted |
| 4. Identification of major programs | |

Assistance Listing Number	Federal Program
93.600	Head Start Cluster

- | | |
|---|-----|
| 5. Dollar threshold used to distinguish between type A and type B programs: \$3,000,000 | |
| 6. Auditee qualified as low-risk under 2CFR 200.520 | Yes |

State Programs

- | | |
|--|------------|
| 1. Type of auditors' report issued on compliance for major programs | Unmodified |
| 2. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be material weaknesses? | None noted |
| 3. Any audit findings disclosed that are required to be reported in accordance with the Texas Grants Management Standards? | None noted |
| 4. Identification of major programs | |

CFSA Number	State Program
N/A	Child Care Management Services

- | | |
|--|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs | \$750,000 |
|--|-----------|

**Child Care Associates
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022**

Section II – Financial Statement Findings

No such findings noted.

Section III – Federal Award Findings and Questioned Costs

No such findings or questioned costs in the current year.

Section IV – Major State Programs Findings and Questioned Costs

No such findings or questioned costs in the current year.