Clayton Early Learning

Financial Statements and Supplementary Information

June 30, 2017
With Comparative Totals for June 30, 2016

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Clayton Early Learning

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Independent Auditor's Report

To the Board of Trustees of
Clayton Early Learning

Report on the Financial Statements

We have audited the accompanying financial statements of Clayton Early Learning, which comprise the statement of financial position as of June 30, 2017, 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 misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clayton Early Learning as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles general accepted in the United States of America.

Board of Trustees
Clayton Early Learning

Report on Summarized Comparative Information

We have previously audited Clayton's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. 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 to 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 November 16, 2017, on our consideration of Clayton Early Learning's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clayton Early Learning's internal control over financial reporting and compliance.

Kundinger, Corder & Engle, P.C.

November 16, 2017

Clayton Early Learning
Statement of Financial Position
June 30, 2017
(With Summarized Information for the Year Ended June 30, 2016)

		2017	2016
Assets:			
Cash and cash equivalents	$	516,167	365,358
Accounts and grants receivable		710,048	520,205
Contributions and private grants receivable		162,500	718,745
Investments (notes 2 and 3)		19,983,699	18,552,023
Property and equipment, net of accumulated depreciation (note 4)		11,201,443	11,179,512
Prepaid expense and other assets		54,508	18,610
Total Assets	$	32,628,365	31,354,453
Liabilities and Net Assets:			
Accounts payable	$	395,433	441,523
Accrued payroll and other liabilities		654,046	620,479
Deferred revenue		88,635	4,500
Notes payable (note 5)		5,432	65,517
Total liabilities		1,143,546	1,132,019
Net assets:			
Unrestricted		10,771,043	10,138,650
Temporarily restricted (note 6)		8,629,789	7,999,797
Permanently restricted (note 6)		12,083,987	12,083,987
Total net assets		31,484,819	30,222,434
Commitments (notes 7 and 8)			
Total Liabilities and Net Assets	$	32,628,365	31,354,453

See the accompanying notes to the financial statements.

Clayton Early Learning
Statement of Activities
For the Year Ended June 30, 2017
(With Summarized Information for the Year Ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Revenue, Gains and Support:					
Program revenue:					
Federal government grants	$ 6,379,076	-	-	6,379,076	5,643,288
State and local government funding	2,222,993	-	-	2,222,993	2,494,015
Contract revenue	1,333,110	-	-	1,333,110	1,033,976
Private grants and contributions	707,965	926,503	-	1,634,468	1,760,437
Tuition and fee revenue	574,375	-	-	574,375	511,626
Total program revenue	11,217,519	926,503	-	12,144,022	11,443,342
Investment income, net (note 2)	1,766	2,404,978	-	2,406,744	(296,288)
Rental income (note 8)	1,057,132	-	-	1,057,132	1,084,591
Special events	136,931	-	-	136,931	116,294
Net assets released due to:					
Spending policy appropriation	1,292,284	(1,292,284)	-	-	-
Satisfaction of donor restrictions	1,409,205	(1,409,205)	-	-	-
Total revenue, gains and support	15,114,837	629,992	-	15,744,829	12,347,939
Expenditures:					
Program	11,739,611	-	-	11,739,611	11,597,752
Campus improvements and facilities	577,935	-	-	577,935	628,805
Management and general	1,749,932	-	-	1,749,932	1,743,574
Development expense	414,966	-	-	414,966	393,302
Total expenditures	14,482,444	-	-	14,482,444	14,363,433
Change in net assets before gain on insurance settlement	632,393	629,992	-	1,262,385	(2,015,494)
Gain on insurance settlement	-	-	-	-	315,975
Change in net assets	632,393	629,992	-	1,262,385	(1,699,519)
Net assets at beginning of year	10,138,650	7,999,797	12,083,987	30,222,434	31,921,953
Net assets at end of year	$ 10,771,043	8,629,789	12,083,987	31,484,819	30,222,434

See the accompanying notes to the financial statements.

Clayton Early Learning
Statement of Functional Expenses
For the Year Ended June 30, 2017
(With Summarized Information for the Year Ended June 30, 2016)

	Education Services	Research & Evaluation	Other Programs	Total Program	Campus Improvements and Facilities	General and Administrative	Development	Total 2017	Total 2016
Salaries and wages	$ 5,257,168	1,151,327	295,955	6,704,450	200,776	887,040	235,428	8,027,694	7,880,858
Payroll taxes	365,502	74,754	15,448	455,704	14,146	103,838	12,084	585,772	580,455
Fringe benefits	881,221	181,163	47,626	1,110,010	34,616	160,106	33,338	1,338,070	1,492,879
Legal	-	-	-	-	-	61,150	-	61,150	74,078
Accounting and audit	18,418	3,031	709	22,158	661	53,992	514	77,325	75,714
Special events	-	-	-	-	-	-	76,423	76,423	80,600
Advertising and promotion	20	-	2,070	2,090	-	-	9,682	11,772	23,843
Office expense	29,401	5,663	1,481	36,545	994	10,329	3,784	51,652	54,276
Information technology	208,863	44,471	8,209	261,543	8,410	83,122	20,147	373,222	364,470
Occupancy	438,947	40,452	5,499	484,898	111,520	66,575	4,227	667,220	726,329
Travel	46,796	21,693	1,525	70,014	-	1,158	266	71,438	72,423
Conferences, conventions and meetings	56,593	58,227	41,422	156,242	-	20,257	4,198	180,697	193,570
Bond interest and fees	-	-	-	-	-	1,261	-	1,261	3,435
Depreciation and amortization	182,625	48,198	-	230,823	174,223	91,014	-	496,060	505,219
Insurance	44,819	6,648	962	52,429	29,136	20,998	613	103,176	104,748
Contracts/consultants	1,398,507	222,595	12,500	1,633,602	-	174,850	8,603	1,817,055	1,615,872
Program supplies	400,088	16,125	1,588	417,801	284	-	-	418,085	402,410
Training stipends/ Program incentives	9,748	13,629	19,100	42,477	-	1,720	-	44,197	46,776
Dues, membership & subscriptions	14,745	1,318	287	16,350	72	7,947	-	24,369	20,285
Other	40,000	2,355	120	42,475	3,097	4,575	5,659	55,806	45,193
	$ 9,393,461	1,891,649	454,501	11,739,611	577,935	1,749,932	414,966	14,482,444	14,363,433

See the accompanying notes to the financial statements.

Clayton Early Learning

Statement of Cash Flows

For the Year Ended June 30, 2017

(With Summarized Information for the Year Ended June 30, 2016)

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	1,262,385	(1,699,519)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		496,060	505,219
Donated contributions of building improvements		(453,204)	-
Gain on insurance settlement		-	(315,975)
Net realized and unrealized (gain) loss on investments		(2,072,335)	643,706
Decrease (increase) in operating assets:			
Accounts and grants receivable		(189,843)	34,369
Contributions and private grants receivable		556,245	(381,245)
Prepaid expense and other assets		(35,898)	15,198
Increase (decrease) in operating liabilities:			
Accounts payable		(46,090)	32,048
Accrued payroll and other liabilities		33,567	67,488
Deferred revenue		84,135	4,500
Net cash used in operating activities		(364,978)	(1,094,211)
Cash flows from investing activities:			
Purchases of improvements and equipment		(64,786)	(339,879)
Net sales of investments		640,658	1,018,519
Proceeds from insurance settlement		-	315,975
Net cash provided by investing activities		575,872	994,615
Cash flows from financing activities:			
Payments on note payable		(60,085)	(58,133)
Net cash used in financing activities		(60,085)	(58,133)
Net change in cash and cash equivalents		150,809	(157,729)
Cash and cash equivalents, beginning of year		365,358	523,087
Cash and cash equivalents, end of year	$	516,167	365,358
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	1,261	3,434

See the accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies

(a) General

The George W. Clayton Trust (Clayton Early Learning) was established in 1899 and is administered by Clayton Early Learning, Trustee, George W. Clayton Trust. Clayton Early Learning is Colorado's leading catalyst in providing and collaborating with others to improve early care and education (ECE) to ensure optimal development during the critical birth-to-5 period for all children, especially those of limited opportunity. We promote educational equity and school readiness by harnessing the synergy of our four dynamic initiatives – family-centered classroom and home-based practices through our schools, research and program evaluation, professional development of teachers and leaders and strategic advocacy work – to discover the best ways to teach and prepare young children for school. Our unique approach has proved successful in closing achievement gaps for disadvantaged children so they are poised for success in school and life.

Based on a twenty-acre historic campus in northeast Denver with a second school site on Denver Public School's Evie Garrett Dennis Campus, Clayton Early Learning is nationally recognized as an epicenter for early childhood education. Clayton works in multiple arenas to improve access to quality ECE for children with limited opportunities through an approach that includes an ongoing cycle of research to practice to policy. Our areas of programmatic and research focus are 1) Early learning and care for children prenatal to five, 2) Professional development of teachers and leaders, and 3) Support for parents and families. We leverage strategic partnerships and collaborations locally and nationally to enhance our ability to meet our mission and vision and provide strength to our partners in turn.

Clayton Early Learning impacts the school-readiness of about 17,000 children in Colorado annually. Our all-inclusive model sets us apart as we are constantly researching and evaluating our practices both internally and externally to improve the quality and effectiveness of early care and education programs.

(b) Financial Statement Presentation

Basis of Accounting

The accompanying financial statements of Clayton Early Learning have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

(1) Summary of Significant Accounting Policies, Continued

(b) Financial Statement Presentation, Continued

Basis of Presentation

Information regarding the financial position and activities of Clayton Early Learning is reported according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

(c) Cash and Cash Equivalents

For purposes of the statement of cash flows, Clayton Early Learning considers all unrestricted highly liquid investments with an original maturity of three months or less, and which are not held by investment managers as part of an investment portfolio, to be cash equivalents.

(d) Accounts and Grants Receivable

Accounts and grants receivable represent claims for reimbursement and other fees earned under contracts and grant agreements. The allowance for doubtful accounts is based on past collection experience and on analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. Clayton Early Learning considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. Receivable balances are considered to be past due based on contractual terms.

(e) Investments

Clayton Early Learning reports investments at fair value. Fair value is determined as more fully described in note 3. In general, investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based upon quoted prices in active markets. Clayton Early Learning's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

Investment return consists of Clayton Early Learning's distributive share of any interest, dividends, and capital gains and losses generated from Clayton Early Learning's investments, as well as the change in fair value of the investments. Gains and losses attributable to Clayton Early Learning's investments are realized and reported upon a sale or disposition of the investments. Unrealized gains and losses are included in the change in net assets in the statements of activities.

(1) Summary of Significant Accounting Policies, Continued

(f) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by the donor, including pledges, is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(g) Contributions and Private Grants Receivable

Unconditional contributions receivable are recognized as revenues in the period the pledge or grant agreement is received. Contributions and grants receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year, unless the effect on the financial statements is not significant. Conditional contributions and grants receivable are recognized when the conditions on which they depend are substantially met.

Clayton Early Learning uses the allowance method to determine uncollectible contributions and grants receivable. At June 30, 2017 there is no allowance for uncollectible amounts because management believes that all contributions and grants will be collected in their entirety.

At June 30, 2017, all unconditional contributions and grants receivable are scheduled to be collected in one year.

(h) Contributed Services

Contributed services meeting the criteria of recognition under generally accepted accounting principles are recorded as contributions and corresponding expense at their estimated values at the date of donation. Volunteers also provide various services throughout the year that are not recognized as contributions in the financial statements because the contributions do not meet the criteria for recognition.

(i) Contract Revenue

Contract revenue is recognized when the services are performed. Amounts received but not yet earned are reported as deferred revenue. At June 30, 2017, deferred revenue totaled $88,635.

(1) Summary of Significant Accounting Policies, Continued

(j) Concentrations of Credit Risk

Financial instruments which potentially subject Clayton Early Learning to concentrations of credit risk consist of cash in excess of FDIC limits, cash and temporary investments, investments in debt and equity securities, and contributions and grants receivable. Clayton Early Learning places its cash and temporary investments with creditworthy, high quality financial institutions. Investments are managed by investment advisors who are supervised by the Board of Trustees. Though the market values of investments are subject to fluctuation on a year-to-year basis, the Board of Trustees believes that the investment policy is prudent for the long-term welfare of Clayton Early Learning. Credit risk with respect to contributions and grants receivable is limited due to the number and credit worthiness of the individuals and organizations from whom the amounts are due.

(k) Property and Equipment

Property and equipment are stated at cost or, if donated, at the approximate fair market value at the date of donation. Clayton Early Learning capitalizes assets with useful lives of more than one year and a cost of $5,000 or greater. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years.

(l) Use of Estimates

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

(m) Functional Allocation of Expenses

The costs of providing the various programs and related supporting services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the appropriate programs and supporting services benefited.

(n) Income Taxes

Clayton Early Learning is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies for the charitable contribution deduction. Income from activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income in the year ended June 30, 2017.

(1) Summary of Significant Accounting Policies, Continued

(n) Income Taxes, Continued

Management is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. Management believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are significant to the financial statements. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed. Clayton's tax returns for the previous three years, June 30, 2014 through June 30, 2016, are subject to examination by the IRS, generally for three years after initial filing.

(o) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. Clayton Early Learning's financial statements were available to be issued on November 16, 2017, and this is the date through which subsequent events were evaluated. See note 9.

(p) Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Clayton's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on net assets.

(2) Investments

Clayton Early Learning's investment assets, which consist of publicly held investments, are dedicated to providing the financial resources needed to meet Clayton Early Learning's charitable objectives.

Marketable securities are exposed to various risks that may cause the reported value of the investment assets to fluctuate from period to period and result in a material change to the net assets of Clayton Early Learning. Investments in equity securities fluctuate in value in response to many factors such as the activities and financial condition of individual companies, business and industry market conditions and the general economic environment. The value of bond investments and other fixed income securities fluctuate in response to changing interest rates, credit worthiness of issuers and overall economic policies that impact market conditions.

(2) Investments, Continued

Investments are stated at their fair values and consist of the following at June 30, 2017:

Equity mutual funds:	
Domestic	$ 9,254,695
International	2,675,008
Corporate/government bond mutual funds	5,178,260
Multi-strategy funds	2,873,170
Corporate bonds	2,566
Total investments	$ 19,983,699

Investment return is summarized as follows:

Interest and dividend income	$ 360,799
Realized gain	257,217
Unrealized gain	1,816,298
Less investment management fees	(27,570)
Net investment income	$ 2,406,744

(3) Fair Value Measurements

Clayton Early Learning reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require Clayton Early Learning to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Investments which are generally included in this category are listed equity and debt securities publicly traded on an exchange, listed derivatives, cash and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt.

(3) Fair Value Measurements, Continued

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2 and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in Clayton Early Learning's financial statements.

Clayton Early Learning considers all of their investments to be Level 1 investments. All assets have been valued using a market approach. There were no changes in valuation techniques during the current year.

(4) Property and Equipment

Property and equipment at June 30, 2017 consists of the following:

Land and improvements	$ 2,727,959
Golf course improvements	483,854
Buildings and improvements	16,546,807
Furniture and equipment	850,606
Vehicles	90,375
Website and technology	32,124
	20,731,725
Less accumulated depreciation	(9,530,282)
	$ 11,201,443

(5) Note Payable

During the year ended June 30, 2014, Clayton Early Learning entered into a loan agreement with Wells Fargo for $175,000 to pay off the balance of the Series 2006 Variable Rate Demand Revenue Bonds. The loan accrues interest at 3.25% and is payable over 36 months, with the final payment due on July 1, 2017. The loan is collateralized by Clayton Early Learning's receivables and equipment. The balance of the loan was $5,432 at June 30, 2017. The balance was paid in full on July 1, 2017, with accrued interest of $18.

Interest expense totaled $1,261 for the year ended June 30, 2017.

(6) Restricted Net Assets

Temporarily Restricted

Net assets are restricted for the following purposes at June 30, 2017:

Cash received, restricted for program expenditures	$	374,986
Cash received, restricted by time		304,570
Contributions receivable, restricted for program expenditures		162,500
Endowment earnings not yet appropriated		7,787,733
	$	8,629,789

Permanently Restricted

Permanently restricted net assets include the assets of the George W. Clayton Endowment Fund ($12,058,987) and the William Barth Endowment Fund ($25,000). Under the terms of the will of George W. Clayton, income in any year from the George W. Clayton Endowment Fund in excess of the amount needed for the maintenance of the George W. Clayton Campus and Trust programs was to become part of the principal of the Endowment Fund, and was not to be used to meet future expenses. On December 23, 1991, the Denver Probate Court granted a petition allowing the use of net appreciation in the fair value of the Endowment fund assets, realized and unrealized, for the purposes for which it was established. Accordingly, permanently restricted net assets in the George W. Clayton Endowment Fund consist of the assets in the Endowment fund as of December 23, 1991.

The William Barth Endowment Fund represents a $25,000 permanent endowment under the terms of the will of William Barth. Income earned from the endowment is available for maintenance expenses of Clayton Early Learning's buildings.

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Clayton Early Learning has interpreted UPMIFA as requiring the preservation of the endowment as of December 23, 1991. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by UPMIFA

In accordance with UPMIFA, Clayton Early Learning considers the following factors in making a determination to appropriate or accumulate endowment funds:

(1) The duration and preservation of the fund
(2) The purpose of the endowment funds
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other endowment resources
(7) The investment policies of Clayton Early Learning

(6) Restricted Net Assets, Continued

Following are the changes in the endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	6,675,039	12,083,987	18,759,026
Investment return:				
Investment income	-	332,643	-	332,643
Net appreciation (realized and unrealized)	-	2,072,335	-	2,072,335
Total investment return	-	2,404,978	-	2,404,978
Appropriation of endowment assets for expenditure	-	(1,292,284)	-	(1,292,284)
Endowment net assets, end of year	$ -	7,787,733	12,083,987	19,871,720

Return Objectives and Risk Parameters
Endowment assets include two wills that, in accordance with the Probate Court, must be held in perpetuity. Clayton Early Learning has adopted investment and spending policies for endowment assets that attempt to provide a reasonable, predictable, stable and sustainable level of distribution to Clayton Early Learning's operations that supports current needs and provides for growth in assets and income over time. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a long-term rate of return that is at least 6% after accounting for the effect of inflation. The rate of return has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the investment portfolio. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, Clayton Early Learning relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Clayton Early Learning targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Distribution Policy and How the Investment Objectives Relate to Distribution Policy
Clayton Early Learning's Board of Trustees has a policy of appropriating for distribution each year up to 5% of the three-year rolling average annual market value of the investment portfolio calculated as of December 31.

In establishing the distribution policy, Clayton Early Learning considered that the investment portfolio is a primary income source and is to be used to fund its operations.

(7) Employee Benefit Plan

Effective January 1, 1999, Clayton Early Learning adopted The Clayton Foundation 401(k) Plan for the benefit of Clayton Early Learning employees. Eligible employees may begin to participate in the plan with elective deferral contributions on the quarter following date of hire. Each year, employees may contribute from 1% to 100% of pretax annual compensation or the elective contribution limit as prescribed by the IRS. After one year of service or 1,000 service hours and upon age 21 or over, Clayton Early Learning will match employee contributions at the rate of $0.75 per employee dollar up to 5% of eligible compensation. Employer Match contributions to the plan in fiscal year 2017 totaled $152,489, net of forfeitures.

(8) Rental Income

Clayton Early Learning leases space on its campus facility to various not-for-profit organizations at reduced rental rates. Lease terms renew on an annual basis. Total rental income from the leases of campus facilities for the year ended June 30, 2017 was $357,136. Future minimum rentals total $177,917 for 2018.

Effective January 1, 1999, Clayton Early Learning entered into a 20-year lease agreement with American Golf Corporation, lessee of the Park Hill Golf Course. This lease was assigned effective April 7, 2008 to Evergreen Alliance Golf Limited, L.P. Total rent income from the golf course lease for the year ended June 30, 2017 was $699,996.

Future minimum rentals for the remaining balance of the lease term are as follows:

2018	$ 700,000
2019	350,000
Total	$ 1,050,000

In addition, Clayton Early Learning agreed to pay the lessee an annual management fee of $100,000, adjusted for increases in the Consumer Price Index. However, if the lessee has no operating income Clayton Early Learning has no obligation to pay the fee. No fees have been paid to date under the terms of this agreement.

(9) Subsequent Events

Subsequent to year-end, Clayton Early Learning entered into a proposed agreement with the City and County of Denver to sell a portion of the property known as Park Hill Golf Course to the City and County of Denver. Under the proposed agreement, on January 2, 2019 the City would purchase 50% of the property for $10,000,000 and would lease the remaining 50% of the property for $350,000 per year for up to 30 years. If all or part of the property is sold to third parties after the effective date of the agreement, Clayton Early Learning and the City would share the proceeds. The proposed agreement was approved by the Clayton Early Learning Board of Trustees on September 21, 2017 and will need to be approved by City Council and the Probate Court of Denver before any agreement is finalized.

Clayton Early Learning announced in late June 2017, that they will consolidate all preschool operations into one facility at the Denver Educare School, and will no longer operate classrooms at the Far Northeast School as of August 18, 2017. Future activity at the Far Northeast School is being evaluated by Clayton Early Learning and Community Partners.

Clayton Early Learning
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal grantor/pass-through grantor/ program title	Federal award year	CFDA number	Federal expen- ditures
U.S. Department of Health and Human Services:			
Early Head Start	7/1/16-6/30/17	93.600	$ 3,122,475
Early Head Start Child Care Partnership	3/1/15-8/31/17	93.600	1,291,659
Pass-through from the City & County of Denver:			
Head Start	7/1/16-6/30/17	93.600	1,450,071
Pass-through from the State of Colorado:			
Maternal, Infant and Early Childhood Home Visiting Progam	10/1/15-9/30/17	93.505	139,484
Total U.S. Department of Health and Human Services			6,003,689
Corporation for National and Community Service:			
Pass-through from Mile High United Way:			
Social Innovation Fund	7/1/16-6/30/17	94.019	175,954
U.S. Department of Agriculture:			
Pass-through from the State of Colorado:			
Child and Adult Care Food Program	10/1/16-9/30/17	10.558	177,854
U.S. Department of Education:			
Pass-through from Georgia Department of Early Care and Learning:			
Bright from the Start	1/1/16-12/31/16	84.412A	34,812
Total expenditures of federal awards			$ 6,392,309

Note (1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Clayton Early Learning under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Clayton Early Learning, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Clayton Early Learning.

Note (2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note (3) Indirect Cost Rate

Clayton Early Learning has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note (4) Subrecipient Awards

There were no awards passed through by Clayton Early Learning to subrecipients.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Clayton Early Learning:

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 Early Learning (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clayton Early Learning's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clayton Early Learning's internal control. Accordingly, we do not express an opinion on the effectiveness of Clayton Early Learning'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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Clayton Early Learning
Board of Trustees

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clayton Early Learning'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kundinger, Corder & Engle, P.C.

November 16, 2017

Kundinger, Corder & Engle, P.C.

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Trustees
Clayton Early Learning:

Report on Compliance for Each Major Federal Program

We have audited Clayton Early Learning's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of Clayton Early Learning's major federal programs for the year ended June 30, 2017. Clayton Early Learning's major federal 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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Clayton Early Learning's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about Clayton Early Learning's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Clayton Early Learning
Board of Trustees

Opinion on Each Major Federal Program
In our opinion, Clayton Early Learning complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance
Management of Clayton Early Learning is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Clayton Early Learning's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Clayton Early Learning'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 program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kundinger, Corder & Engle, P.C.

November 16, 2017

Clayton Early Learning

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of Clayton Early Learning.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's 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*.
3. No instances of noncompliance material to the financial statements of Clayton Early Learning were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Clayton Early Learning expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of the Uniform Guidance.
7. Early Head Start and Head Start (CFDA #93.600) were tested as major programs.
8. The threshold used for distinguishing between Type A and B programs was $750,000.
9. Clayton Early Learning qualified as a low-risk auditee.

B. Findings–Financial Statements Audit

None.

C. Findings and Questioned Costs–Major Federal Award Programs Audit

None.

Clayton Early Learning

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2017

No matters were reported.