

Texas Association for the Education of Young Children, Inc.

**Financial Statements with Supplementary Information
and Compliance Reports
May 31, 2025 and 2024**



Texas Association for the Education of Young Children, Inc.

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Independent Auditors' Report

To the Board of Directors of
Texas Association for the Education of Young Children, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Texas Association for the Education of Young Children, Inc. (Organization) (a nonprofit organization), which comprise the statements of financial position as of May 31, 2025 and 2024, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of May 31, 2025 and 2024, and the changes in its net assets (deficit) and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Substantial Doubt about Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 2 to the financial statements, the Organization incurred net losses of \$410,869 and \$376,743 for the years ended May 31, 2025 and 2024, respectively. Additionally, subsequent to year end, a grant, which accounted for 48% of revenue and support for the year ended May 31, 2025, was terminated. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements, including omissions, 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 financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for 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 audits 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2026 on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Organization’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control over financial reporting and compliance.



A Limited Liability Partnership

Arlington, Texas
February 27, 2026

Texas Association for the Education of Young Children, Inc.
Statements of Financial Position
May 31, 2025 and 2024

	2025	2024
Assets		
Cash	\$ 62,515	\$ 322,936
Government grants receivable	540,424	161,606
Accounts receivable	67,264	4,421
Unconditional promises to give	-	7,745
Prepaid expenses and deposits	13,100	22,218
Right-of-use asset – operating lease, net	-	64,716
Total assets	\$ 683,303	\$ 583,642
Liabilities and Net Assets (Deficit)		
Liabilities:		
Accounts payable	\$ 426,710	\$ 85,375
Accrued expenses	41,625	58,994
Deferred revenue	79,784	25,166
Line of credit	200,000	-
Right-of-use liability - operating lease	-	68,054
Total liabilities	748,119	237,589
Net assets (deficit):		
Without donor restrictions	(261,283)	140,401
With donor restrictions	196,467	205,652
Total net assets (deficit)	(64,816)	346,053
Total liabilities and net assets (deficit)	\$ 683,303	\$ 583,642

See notes to financial statements.

Texas Association for the Education of Young Children, Inc.
Statement of Activities
Year Ended May 31, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Government grants	\$ 2,199,904	\$ -	\$ 2,199,904
Contributions	51,794	110,000	161,794
Membership dues	130,969	-	130,969
Registration fees	401,063	-	401,063
Contracted services	267,695	-	267,695
Sponsorships and event income	132,525	-	132,525
Other income	16,682	-	16,682
Net assets released from restrictions	119,185	(119,185)	-
Total revenue and support	3,319,817	(9,185)	3,310,632
Expenses:			
Program services	2,873,852	-	2,873,852
General and administrative	847,649	-	847,649
Total expenses	3,721,501	-	3,721,501
Change in net assets	(401,684)	(9,185)	(410,869)
Net assets at beginning of year	140,401	205,652	346,053
Net assets (deficit) at end of year	\$ (261,283)	\$ 196,467	\$ (64,816)

See notes to financial statements.

Texas Association for the Education of Young Children, Inc.
Statement of Activities
Year Ended May 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
Government grants	\$ 3,916,389	\$ -	\$ 3,916,389
Contributions	42,801	-	42,801
Membership dues	67,366	-	67,366
Registration fees	598,378	-	598,378
Contracted services	448,483	-	448,483
Sponsorships and event income	132,059	-	132,059
Other income	5,449	-	5,449
Net assets released from restrictions	194,348	(194,348)	-
Total revenue and support	5,405,273	(194,348)	5,210,925
Expenses:			
Program services	4,769,702	-	4,769,702
General and administrative	817,966	-	817,966
Total expenses	5,587,668	-	5,587,668
Change in net assets	(182,395)	(194,348)	(376,743)
Net assets at beginning of year	322,796	400,000	722,796
Net assets at end of year	\$ 140,401	\$ 205,652	\$ 346,053

See notes to financial statements.

Texas Association for the Education of Young Children, Inc.
Statement of Functional Expenses
Year Ended May 31, 2025

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and benefits	\$ 1,216,088	\$ 276,201	\$ 1,492,289
Bank fees	4,704	20,000	24,704
Conference and training	42,465	197,980	240,445
Licenses and subscriptions	69,456	15,848	85,304
Membership benefits and support	1,508	13,225	14,733
Occupancy	92,521	170,795	263,316
Other	3,549	30,691	34,240
Professional services	549,649	58,919	608,568
Program scholarships, awards and support	812,500	-	812,500
Supplies and materials	17,019	32,906	49,925
Technical assistance for child care	33,531	-	33,531
Technology and communications	24,862	5,716	30,578
Travel	6,000	25,368	31,368
Total expenses	<u>\$ 2,873,852</u>	<u>\$ 847,649</u>	<u>\$ 3,721,501</u>

See notes to financial statements.

Texas Association for the Education of Young Children, Inc.
Statement of Functional Expenses
Year Ended May 31, 2024

	Program Services	General and Administrative	Total
Salaries and benefits	\$ 1,310,764	\$ 230,080	\$ 1,540,844
Bank fees	8,977	32,117	41,094
Conference and training	34,516	302,931	337,447
Licenses and subscriptions	96,135	11,684	107,819
Membership benefits and support	1,957	29,678	31,635
Occupancy	100,725	15,425	116,150
Other	26,115	23,518	49,633
Professional services	810,128	81,267	891,395
Program scholarships, awards and support	2,223,142	-	2,223,142
Staff development	2,100	27,815	29,915
Supplies and materials	17,585	34,051	51,636
Technical assistance for child care	110,479	-	110,479
Technology and communications	26,274	4,862	31,136
Travel	805	24,538	25,343
Total expenses	\$ 4,769,702	\$ 817,966	\$ 5,587,668

See notes to financial statements.

Texas Association for the Education of Young Children, Inc.
Statements of Cash Flows
Years Ended May 31, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Change in net assets	\$ (410,869)	\$ (376,743)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Amortization of right-of-use asset - operating lease	64,716	58,681
Changes in assets and liabilities:		
Government grants receivable	(378,818)	50,136
Accounts receivable	(62,843)	33,774
Unconditional promises to give	7,745	4,905
Prepaid expenses and deposits	9,118	975
Accounts payable	341,335	(113,018)
Accrued expenses	(17,369)	9,815
Deferred revenue	54,618	(5,558)
Right-of-use liability - operating lease	(68,054)	(60,641)
Net cash used by operating activities	(460,421)	(397,674)
Cash flows from financing activities:		
Draws on line of credit	200,000	-
Net change in cash	(260,421)	(397,674)
Cash at beginning of year	322,936	720,610
Cash at end of year	\$ 62,515	\$ 322,936

See notes to financial statements.

Texas Association for the Education of Young Children, Inc.

Notes to Financial Statements

1. Organization

Texas Association for the Education of Young Children, Inc. (Organization) is a non-profit organization with the mission to provide opportunities for professional growth and to broaden public awareness on early education issues affecting the lives of children and their families.

The Organization is a state affiliate of the National Association for the Education of Young Children which is the nation's largest and most influential organization of early childhood educators and others dedicated to improving the quality of programs for children from birth through third grade.

Founded in 1966, the Organization supports over 2,000 members statewide with training, legislative advocacy, grants and scholarships. Membership is open to all who share a desire to serve and act on behalf of the needs and rights of children and their families.

2. Going Concern

As shown in the accompanying financial statements, the Organization experienced a deficit in net assets totaling \$64,816 as of May 31, 2025, precipitated by net losses of \$410,869 and \$376,743 for the years ended May 31, 2025 and 2024, respectively. Additionally, subsequent to year end, a grant, which accounted for 48% of revenue and support for the year ended May 31, 2025, was terminated.

Management has developed a multi-faceted plan to address the profitability and liquidity issues of the Organization through increasing revenues, reducing expenditures, obtaining a short term line of credit and expanding fee for service revenue streams. Management believes that this plan provides an opportunity for the Organization to continue as a going concern.

3. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP).

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Texas Association for the Education of Young Children, Inc.

Notes to Financial Statements

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a board of directors approved spending policy. As of May 31, 2025 and 2024, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Financial Instruments and Credit Risk Concentrations

Financial instruments, which are potentially subject to concentrations of credit risk, consist principally of cash, government grants receivable, accounts receivable and unconditional promises to give. Cash is placed with high credit quality financial institutions to minimize risk. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At May 31, 2025, the Organization's had no bank balances that were uninsured.

Government grants receivable are unsecured and are due from various government agencies. Accounts receivable are unsecured and due from customers for services provided. Unconditional promises to give are unsecured and are due from various donors. The collectability of the Organization's receivables is reviewed on an ongoing basis, using an assessment of the current status of individual accounts and current economic conditions. All receivables are expected to be collected within one year. Accordingly, no allowances were considered necessary for the years ended May 31, 2025 and 2024.

During the years ended May 31, 2025 and 2024, the Organization received approximately 96% and 52% of total contributions from two donors, respectively.

During the year ended May 31, 2025, two sponsors accounted for 25% of total sponsorship and event income.

During the years ended May 31, 2025 and 2024, the Organization received approximately 96% and 98% of total government grants from two governmental agencies, respectively.

Texas Association for the Education of Young Children, Inc.

Notes to Financial Statements

At May 31, 2025 and 2024, two government agencies accounted for approximately 99% and 91% of total government grants receivable, respectively. At May 31, 2025 and 2024, four and one customers accounted for approximately 81% and 94% of total accounts receivable, respectively. At May 31, 2024, three donors accounted for 100% of total unconditional promises to give.

Revenue Recognition

The Organization recognizes contributions when cash, securities, or other assets or an unconditional promise to give is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Amounts received prior to meeting measurable performance or other barriers are reported as refundable advances.

A significant portion of the Organization's revenue is derived from cost-reimbursable federal contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances. The Organization received cost-reimbursable grants of \$2,437,044 and \$1,202,970 that have not been recognized at May 31, 2025 and 2024, respectively, because qualifying expenditures have not yet been incurred.

Sponsorship and event income and registration fee revenue is recognized at the time of the event. Payments are received either in advance or on the day of the event. The advance payments the Organization receives before the event are accounted for as deferred revenue until the date of the event.

The Organization recognizes revenue from member dues over the membership period, which is generally one year. The performance obligations consist of providing members with conference and training discounts, Early Years Journal, access to members-only events, advocacy, newsletter and access to staff support. Revenue from member dues are recognized ratably as services are received by the members. Payments are typically received in advance of the membership period to which they relate. Due to the nature and timing of the performance, substantially all contract liabilities remaining at year end are recognized in the following year.

Contracted service revenue is recognized over the term of the year as the Organization provides services. Revenue is reported at the amount of consideration which the Organization expects to be entitled in exchange for services. The Organization determines the transaction price based on standard charges for services provided.

Texas Association for the Education of Young Children, Inc.

Notes to Financial Statements

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Costs are allocated between program services and support services based on estimates of time and effort.

Estimates and Assumptions

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

Grant Compliance

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

Federal Income Taxes

The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the years ended May 31, 2025 and 2024. Accordingly, no provision or liability has been reported in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax return and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization and has concluded that at May 31, 2025 and 2024, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Texas Association for the Education of Young Children, Inc.

Notes to Financial Statements

4. Leases

In evaluating its contracts, the Organization separately identifies lease and nonlease components, such as common area and other maintenance costs, in calculating the right-of-use (ROU) asset and lease liability for its office space. The Organization has elected the practical expedient to not separate lease and nonlease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the nonlease component.

Leases result in the recognition of ROU assets and lease liabilities on the statements of financial position. 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, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Organization uses the risk-free rate based on the information available at the commencement date to determine the present value of lease payments. Risk-free rates used to determine the present value of lease payments were derived by reference to the interest paid on short-term government debt.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term. The Organization has elected not to record leases with an initial term of 12 months or less on the statements of financial position.

Nature of Leases

The Organization entered into a non-cancelable operating lease arrangement for office space that expired in April 2025 and was not renewed. The lease requires the Organization to pay all executory costs (taxes, utilities, insurance, etc.). Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

Texas Association for the Education of Young Children, Inc.
Notes to Financial Statements

The following lease cost and other required information are as follows at May 31:

	<u>2025</u>	<u>2024</u>
Total lease cost	<u>\$ 59,689</u>	<u>\$ 65,115</u>
Cash paid for amounts included in the measurement of lease liability:		
Operating cash flows from lease	<u>\$ (68,054)</u>	<u>\$ (60,641)</u>
Weighted-average remaining lease term:	<u>N/A</u>	<u>11 months</u>
Weighted-average discount rate:	<u>N/A</u>	<u>2.84%</u>

5. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of amounts restricted by donors for early learning programs.

6. Contract Assets and Liabilities

Contract assets and liabilities are included in the accompanying statements of financial position under the following captions at May 31:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Contract assets:			
Accounts receivable - contracted services	<u>\$ 67,264</u>	<u>\$ 4,421</u>	<u>\$ 38,195</u>
Contract liabilities:			
Deferred revenue - membership dues	<u>\$ 79,784</u>	<u>\$ 25,166</u>	<u>\$ 30,724</u>

Texas Association for the Education of Young Children, Inc.

Notes to Financial Statements

7. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statements of financial position date for general expenditures are as follows at May 31:

	<u>2025</u>	<u>2024</u>
Cash	\$ 62,515	\$ 322,936
Government grants receivable	540,424	161,606
Accounts receivable	67,264	4,421
Unconditional promises to give	-	7,745
Total financial assets	670,203	496,708
Less amounts unavailable for general expenditures within one year due to:		
Donor-imposed restrictions	<u>(196,467)</u>	<u>(205,652)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 473,736</u>	<u>\$ 291,056</u>

The Organization manages its liquidity and reserves with a policy that monthly revenues and expenditures are deposited in and deducted from the operating accounts.

8. Subsequent Events

The Organization received a notice of termination from the Texas Workforce Commission on October 6, 2025, indicating that their Early Childhood Professional Development grant was terminated effective December 31, 2025. The grant revenue totaled \$1,575,070 for the year ended May 31, 2025, which accounted for 48% of total revenue and support.

The Organization evaluated subsequent events through February 27, 2026, the date the financial statements were available to be issued and concluded that no additional disclosures are required.

Texas Association for the Education of Young Children, Inc.
Schedule of Expenditures of Federal Awards
Year Ended May 31, 2025

Federal Agency/ Pass-through Grantor/Program Title	Assistance Listing Number	Grant Number	Total Expenditures
U.S. Department of Health and Human Services:			
Child Care and Development Fund Cluster:			
Texas Workforce Commission:			
Childcare and Development Block Grant	93.575	2924CCQ002	\$ 1,060,140
Childcare and Development Block Grant	93.575	2920CCQ008	114,930
Childcare and Development Block Grant	93.575	2922CSA003	<u>400,000</u>
Total Child Care and Development Fund Cluster			<u>1,575,070</u>
Total U.S. Department of Health and Human Services			1,575,070
U.S. Department of Education:			
Texas Education Agency:			
Comprehensive Literacy Development	84.371C	216470017110001/246470017110001	<u>533,238</u>
Total U.S. Department of Education			533,238
U.S. Department of Treasury:			
City of Austin:			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	MA 5500 NA220000102	<u>64,096</u>
Total U.S. Department of Treasury			<u>64,096</u>
Total federal expenditures			<u>\$ 2,172,404</u>

See notes to schedule of expenditures of federal awards.

Texas Association for the Education of Young Children, Inc.
Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Texas Association for the Education of Young Children, Inc. (Organization) and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with 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). Because the Schedule only presents a selected portion of the operations of the Organization, it is not intended and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

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

The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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

To the Board of Directors of
Texas Association for the Education of Young Children, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Texas Association for the Education of Young Children, Inc. (Organization) (a nonprofit organization), which comprise the statement of financial position as of May 31, 2025, 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 February 27, 2026.

Report on Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



A Limited Liability Partnership

Arlington, Texas
February 27, 2026



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

To the Board of Directors of
Texas Association for the Education of Young Children, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Texas Association for the Education of Young Children, Inc.'s (Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended May 31, 2025. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2025-002 and 2025-003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2025-002 and 2025-003 to be significant deficiencies.

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

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



A Limited Liability Partnership

Arlington, Texas
February 27, 2026

Texas Association for the Education of Young Children, Inc.
Schedule of Findings and Questioned Costs
Year Ended May 31, 2025

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	Yes
Type of auditors’ report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516(a)?	Yes

Identification of Major Federal Programs

ALN 93.575	Child Care and Development Block Grant
Dollar threshold used to distinguish between type A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding No. 2025-001: Statement of financial position and statement of activities account reconciliations – significant deficiency.

Criteria: Texas Association for the Education of Young Children, Inc. (Organization) is responsible for presenting financial statements that are fairly stated in accordance with accounting principles generally accepted in the United States of America.

Texas Association for the Education of Young Children, Inc.
Schedule of Findings and Questioned Costs
Year Ended May 31, 2025

Condition: Prior year financial records were not appropriately closed, causing reconciliation issues related to opening balances for the current year's financial records. Also current year cash, accounts receivable, government grants receivable, prepaid expenses, payroll liabilities, accrued expenses, accounts payable, right-of-use liability and deferred revenue accounts were not appropriately reconciled.

Cause: The organization had significant turnover in management, including accounting leadership. This turnover and a heavy dependence upon journal entry based accounting resulting in significant delays in proper reconciliations of these year-end statement of financial position and statement of activities accounts being performed.

Effect: Management updated these reconciliations resulting in journal entries and significant delays to the original audit timeline. The effect of the entries resulted in entries that decreased assets by \$53,847, increased liabilities by \$90,850, decreased revenue by \$6,883 and increased expenses by \$110,333 as of and for the year ended May 31, 2025.

Recommendation: We recommend that management follow their policy of reconciling and reviewing all accounts in a timely manner.

Management's Response: See corrective action plan.

Section III – Federal Award Findings and Questioned Costs

Finding 2025-002: Allowable costs and activities – Significant deficiency in internal controls over compliance.

ALN 93.575 Child Care and Development Block Grant

Criteria: Section 200 of the Code of Federal Regulations requires recipients to implement robust internal controls to reduce the risk of noncompliance with allowable cost principles for all transactions allocated to the grant.

Condition: During allowable cost and activities other cost testing for the program, 7 out of 40 samples did not include approval of the invoice prior to being allocated to the grant activities.

Cause: As of May 31, 2025, the Organization does not have a standard procedure in place to ensure proper controls over allowable costs and activities allocated to federal grants.

Effect: Internal controls over the program were not properly designed to reduce the risk of noncompliance.

Questioned Costs: None.

Recommendation: In order to comply with the Code of Federal Regulations, we recommend the Organization implement a prior approval process of all grant expenditures. In addition, support of approval should be documented and kept on file.

Texas Association for the Education of Young Children, Inc.
Schedule of Findings and Questioned Costs
Year Ended May 31, 2025

Management's response: See corrective action plan.

Finding 2025-003: Allowable costs and activities – Significant deficiency in internal controls over compliance and compliance finding.

ALN 93.575 Child Care and Development Block Grant

Criteria: Section 200 of the Code of Federal Regulations requires recipients to implement robust internal controls to ensure compliance with allowable cost principles for all transactions allocated to the grant.

Condition: During allowable cost testing for federal grants, for 13 out of 40 transactions tested, the amount charged to the grant did not agree to the cost allocation plan.

Cause: Funding percentages in the accounting system did not match the cost allocation plan.

Effect: The cumulative effect of the exceptions noted during testing resulted in the grants being overcharged by the Organization by a nominal amount.

Questioned Costs: None.

Recommendation: Management should ensure amount charged to the grants agree to the approved percentage per the cost allocation plan.

Management's response: See corrective action plan.

Section IV – Summary of Prior Year Audit Findings

Finding 2024-001: Allowable costs – Significant deficiency in internal controls over compliance.

Summary: During allowable cost testing it was noted that the Organization did not implement segregation of duties for time sheets as they were self approved.

Status: The finding was corrected in the current year.

Finding 2024-002: Allowable costs – Significant deficiency in internal controls over compliance and compliance finding.

Summary: During allowable cost testing it was noted that the amounts the Organization was charging to the grant did not agree to the cost allocation plan.

Status: The finding was not corrected in the current year and is shown as a current year finding 2025-003.



Texas Association for the Education of Young Children

Management of the Texas Association for the Education of Young Children acknowledges receipt of the following audit findings for the fiscal year 2025. While in agreement with the findings, management provides the following response:

Finding 2025-001: Statement of financial position and statement of activities account reconciliations

Management Response:

The organization acknowledges that prior year financial records were not appropriately closed, which led to reconciliation issues with opening balances for the current year. Significant turnover in management and accounting leadership, combined with a heavy dependence on journal entry-based accounting, caused delays in proper reconciliations.

To address this, management has updated the necessary reconciliations, resulting in the required journal entries. Moving forward, TXAEYC is committed to following its policy of reconciling and reviewing all statements of financial position and statement of activities accounts in a timely manner. We are stabilizing our accounting processes and reviewing our reliance on manual journal entries to streamline the reconciliation process and ensure year-end closings are accurate and timely.

Parties Responsible and Timeline

The Executive Director and Accountant will oversee the implementation of timely monthly reconciliation reviews immediately. Oversight of the year-end closing process will be reinforced by the Finance Committee, with a review of the closing procedures to be completed by August 2026.

Finding 2025-002: Allowable costs and activities

Management Response:

TXAEYC acknowledges that during testing, certain samples did not include documented approval of invoices prior to allocation to grant activities. We recognize the need for robust internal controls to reduce the risk of noncompliance.

To remedy this, the organization will implement a strict prior approval process for all grant expenditures. We will update our standard operating procedures to ensure that every invoice is reviewed and approved by authorized personnel before being allocated to the grant. Furthermore, all support for these approvals will be documented and kept on file to ensure a clear audit trail.

Parties Responsible and Timeline

Updates to the expenditure approval procedures in the Accounting Manual will be drafted by the Executive Director and Accountant and submitted to the Finance Committee and Governing Board for approval by April 30, 2026. Implementation of the prior approval documentation process will begin immediately upon Board approval.

Finding 2025-003: Allowable costs and activities

Management Response:

Management acknowledges that funding percentages in the accounting system did not match the cost allocation plan for several transactions, resulting in a nominal overcharge to the grants.

To prevent this in the future, management will institute a mandatory verification step where funding percentages entered into the accounting system are cross-referenced directly against the approved cost allocation plan. We will ensure that the amounts charged to grants agree strictly with the approved percentages. Any discrepancies or rounding issues will be addressed by allocating differences to the organization's operating expense class rather than a government grant, ensuring federal awards are not overcharged.



Texas Association for the Education of Young Children

Parties Responsible and Timeline

The Executive Director and Accountant will conduct a review of current system percentages against the cost allocation plan immediately.

Updates to the internal review process for cost allocations will be approved by TXAEYC's Finance Committee and Governing Board by April 30, 2026.

Bernadine Martinez

ITXAEYC Interim Operations Manager
Board approved February 27, 2026