



AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED JUNE 30, 2019

EDUCARE OF WASHINGTON, DC

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FINANCIAL STATEMENTS



**FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2018**

EDUCARE OF WASHINGTON, DC

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Educare of Washington, DC
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Educare of Washington, DC (Educare), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Educare as of June 30, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Educare's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on page I-19, 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 (Uniform Guidance)*, 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 December 12, 2019 on our consideration of Educare'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 Educare's internal control over financial reporting and compliance.



December 12, 2019

EDUCARE OF WASHINGTON, DC
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

ASSETS		
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents - without restrictions	\$ 2,500,104	\$ 1,105,967
Accounts receivable	505,405	60,000
Pledges receivable, current	175,000	50,000
Grants receivable	875,021	720,667
Prepaid expenses	124,553	53,043
Total current assets	4,180,083	1,989,677
PROPERTY AND EQUIPMENT		
Capital lease building	12,700,000	12,700,000
Furniture and equipment	552,230	521,966
Leasehold improvements	105,826	91,281
Other	15,000	-
	13,373,056	13,313,247
Less: Accumulated depreciation and amortization	(1,702,135)	(1,436,505)
Net property and equipment	11,670,921	11,876,742
OTHER ASSETS		
Cash and cash equivalents - restricted	75,435	179,791
Pledges receivable, net of current portion and discount	240,624	140,109
Total other assets	316,059	319,900
TOTAL ASSETS	\$ 16,167,063	\$ 14,186,319
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 180,825	\$ 171,191
Accrued salaries and related benefits	137,081	125,026
Total current liabilities	317,906	296,217
LONG-TERM LIABILITIES		
Notes payable, net	14,994,561	14,980,309
Total liabilities	15,312,467	15,276,526
NET ASSETS (DEFICIT)		
Without donor restrictions	(1,073,122)	(1,371,207)
With donor restrictions	1,927,718	281,000
Total net assets (deficit)	854,596	(1,090,207)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 16,167,063	\$ 14,186,319

See accompanying notes to financial statements.

EDUCARE OF WASHINGTON, DC

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Contributions and grants	\$ 3,503,020	\$ 2,115,043	\$ 5,618,063	\$ 3,410,167
Federal grants	2,224,377	-	2,224,377	1,870,076
In-kind contributions	79,197	-	79,197	40,678
Program income	21,568	-	21,568	27,193
Other revenue	22,021	-	22,021	11,567
Net assets released from donor restrictions	<u>468,325</u>	<u>(468,325)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>6,318,508</u>	<u>1,646,718</u>	<u>7,965,226</u>	<u>5,359,681</u>
EXPENSES				
Program Services	<u>5,237,033</u>	<u>-</u>	<u>5,237,033</u>	<u>5,007,147</u>
Supporting Services:				
Management and General	507,624	-	507,624	328,431
Fundraising/Development	<u>275,766</u>	<u>-</u>	<u>275,766</u>	<u>237,566</u>
Total supporting services	<u>783,390</u>	<u>-</u>	<u>783,390</u>	<u>565,997</u>
Total expenses	<u>6,020,423</u>	<u>-</u>	<u>6,020,423</u>	<u>5,573,144</u>
Change in net assets	298,085	1,646,718	1,944,803	(213,463)
Net assets (deficit) at beginning of year	<u>(1,371,207)</u>	<u>281,000</u>	<u>(1,090,207)</u>	<u>(876,744)</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ (1,073,122)</u>	<u>\$ 1,927,718</u>	<u>\$ 854,596</u>	<u>\$ (1,090,207)</u>

EDUCARE OF WASHINGTON, DC
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

	2019				2018	
	Supporting Services			Total Supporting Services	Total Expenses	Total Expenses
	Program Services	Management and General	Fundraising/ Development			
Payroll expenses	\$ 3,439,768	\$ 170,411	\$ 242,877	\$ 413,288	\$ 3,853,056	\$ 3,533,515
Professional services and contracts	930,618	103,411	4,444	107,855	1,038,473	1,032,598
Occupancy charges	559,877	204,446	12,305	216,751	776,628	733,938
Business expenses	52,989	8,720	417	9,137	62,126	60,537
Equipment	22,687	30	507	537	23,224	23,572
Training	48,372	94	760	854	49,226	54,569
Office expenses	105,427	163	4,317	4,480	109,907	75,608
Communications	2,342	8	7,700	7,708	10,050	9,112
Child services and activities	40,911	77	622	699	41,610	7,834
Travel and meetings	34,042	20,264	1,817	22,081	56,123	41,861
TOTAL	\$ 5,237,033	\$ 507,624	\$ 275,766	\$ 783,390	\$ 6,020,423	\$ 5,573,144

EDUCARE OF WASHINGTON, DC

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,944,803	\$ (213,463)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	265,631	259,736
Discount on long-term pledges receivable	9,376	9,891
Net deferred financing costs	14,252	14,253
(Increase) decrease in:		
Accounts receivable	(445,405)	130,985
Pledges receivable	(234,891)	(200,000)
Grants receivable	(154,354)	(172,639)
Prepaid expenses	(71,510)	13,647
Increase in:		
Accounts payable and accrued liabilities	9,634	38,237
Accrued salaries and related benefits	<u>12,055</u>	<u>7,261</u>
Net cash provided (used) by operating activities	<u>1,349,591</u>	<u>(112,092)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(59,810)</u>	<u>(40,416)</u>
Net cash used by investing activities	<u>(59,810)</u>	<u>(40,416)</u>
Net increase (decrease) in cash and cash equivalents	1,289,781	(152,508)
Cash and cash equivalents, including restricted cash, at beginning of year	<u>1,285,758</u>	<u>1,438,266</u>
CASH AND CASH EQUIVALENTS, INCLUDING RESTRICTED CASH, AT END OF YEAR	<u>\$ 2,575,539</u>	<u>\$ 1,285,758</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	<u>\$ 188,924</u>	<u>\$ 188,924</u>

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Educare of Washington, DC (Educare) is a non-profit organization, founded in 2010, incorporated and located in Washington, D.C. Educare started operations in July 2012. Educare's mission is to serve the children and families of Washington, D.C. by engaging and empowering parents in their children's learning and by providing high-quality education through small class sizes and cutting-edge teaching methods.

Educare is part of the larger Educare Learning Network (ELN), which is a partnership between the Ounce of Prevention Fund, the Buffet Early Childhood Fund, and other national philanthropies and public/private partners from more than a dozen states across America. The more than twenty schools in the ELN are designed to prepare young children for school, nurture early learning, create a more effective early learning program, and drive change among policymakers regarding early childhood learning.

Educare has earned accreditation from the National Association for the Education of Young Children (NAEYC) – the nation's leading organization of early childhood professionals.

Programs -

CACFP-Food Reimbursement -

To ensure the students receive proper nutrition, Educare participates in the Child and Adult Care Food Program, which provides funding to Educare to supplement the costs of the food provided to the students as part of a balanced diet. Educare offers three meals a day plus a snack to the children based on their other program participation.

Early Head Start-Child Care Partnership -

Educare DC's Early Head Start-Child Care Partnership (EHS-CCP) program is funded through a five-year federal grant from the Administration for Children and Families (ACF) within the Department of Health and Human Services. Through this program, Educare DC partners with child care programs in D.C.'s Wards 7 and 8 to serve an additional 144 infants and toddlers and their families. The program enables Educare's child care partners to implement Early Head Start's high-quality standards in classrooms and to add new services including health, oral health, nutrition, mental health, and supports for children with special needs. The program also provides family engagement services, designed to help low-income families build positive relationships with their children and achieve self-sufficiency, as well as facility enhancements.

Early Head Start / Head Start -

Educare runs an Early Head Start (infant-toddler) and Head Start (pre-kindergarten) program for children ranging in age from 6 weeks to 5 years. The infant-toddler program, for children ages 6 weeks to 3 years, is designed to provide children with high-quality interactions and caring attention from their teachers. Each classroom has eight children and three teachers, who work closely with each child, supporting their social, emotional and cognitive development over three years. The pre-kindergarten program uses a play-based curriculum to ensure the 3-, 4- and 5 year-old students are ready to learn and succeed in kindergarten and beyond. Teachers design learning units based on the children's interests, and Educare partners with community organizations to bring additional services to the classroom. Three teachers work with 16-20 children, allowing each child to receive individualized attention and instruction. The programs are funded in part by the Early Head Start and Head Start Federal programs.

EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Programs (continued) -

Pre-K Enhancement and Expansion Grant -

Educare is a recipient of the Pre-K Expansion and Enhancement Grant through the Office of the State Superintendent of Education (OSSE). This funding is allocated to community-based organizations providing Pre-K services pursuant to the Pre-K Enhancement and Expansion Amendment Act of 2008. In order to receive funding, community-based organizations must meet a variety of high-quality standards, such as operating full-day educational programs, employing qualified teachers and paying wages equivalent to what public school Pre-K teachers earn, and using curricula that are aligned with the D.C. Common Core.

At-Risk Funding -

Educare is the recipient of supplemental funding for at-risk Pre-K students, which is authorized by the Early Learning Equity Act of 2017 and administered by the Office of the State Superintendent (OSSE). In order to qualify for at-risk funding, children must be homeless, eligible for public assistance (TANF or SNAP), or in foster care. The funding is a supplement to the per student funding granted through the Pre-K Enhancement and Expansion program.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended June 30, 2019 and applied retrospectively.

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 Educare's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Cash and cash equivalents -

Educare considers all cash, including restricted cash, and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, Educare maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Accounts, pledges and grants receivable -

Accounts, pledges and grants receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Pledges receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions and grants revenue.

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Property and equipment -

Property and equipment in excess of \$2,500 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally ten years. The capitalized leased building and improvements are amortized over the life of the lease which is 65 years. The cost of maintenance and repairs is recorded as expenses are incurred.

Depreciation and amortization expense for the year ended June 30, 2019 totaled \$265,631, and is included in occupancy charges in the accompanying Statement of Functional Expenses.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to Statement of Activities and Change in Net Assets, to its current fair value. There were no assets considered impaired for the year ended June 30, 2019.

Deferred financing costs -

In accordance with FASB ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, Educare presents debt issuance costs in the financial statements as a direct deduction from the related debt liability. Amortization of the costs is reported as interest expense.

Income taxes -

Educare is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Educare is not a private foundation.

Uncertain tax positions -

For the year ended June 30, 2019, Educare has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

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

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions".
- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions.

EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Net asset classification (continued) -

- **Net Assets With Donor Restriction (continued)** - When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements. Contributions and grants received in advance of incurring the related expenses are recorded as "net assets with donor restrictions".

Investments acquired by gift are recorded at their fair value at the date of the gift. Educare's policy is to liquidate all gifts of investments as soon as possible after the gift.

Educare receives funding under grants and contracts from the U.S. Government, other grantors for direct and indirect program costs as well as contributions from private philanthropies. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such awards are recorded as revenue "without donor restrictions" to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance. Educare did not have any refundable advances at June 30, 2019.

In-kind contributions -

In-kind contributions consist of pro-bono professional services and supplies. In-kind contributions are recorded at their fair market value as of the date of the contribution.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying Statement of Activities and Change in Net Assets and by their natural classification in the Statement of Functional Expenses. Costs incurred by a program service or supporting service are charged directly to that service. Other management and general administrative expenses are allocated based on modified total direct costs. Salary and other related payroll costs are allocated based on time spent.

EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of June 30, 2018 as unrestricted net deficit in the amount of \$1,371,207 are now classified as "net assets (deficit) without donor restrictions". Net assets previously classified as temporarily restricted net assets in the amount of \$281,000 are now classified as "net assets with donor restrictions".

New accounting pronouncements (not yet adopted) -

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The ASU is effective for fiscal years beginning after December 15, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. Educare is currently evaluating the effect that the updated standard will have on its financial statements.

Educare plans to adopt the new ASUs at the respective required implementation dates.

2. RESTRICTED CASH

As part of the New Markets Tax Credit (NMTC) transaction (see Note 6), Educare was required to establish reserve accounts from which debt service payments would be made as the required installments became due over the life of the loans.

As of June 30, 2019, restricted cash consisted of the following:

Working Capital Reserves	\$ 45,610
Debt Service Reserves	<u>29,825</u>
TOTAL RESTRICTED CASH	<u>\$ 75,435</u>

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

3. PLEDGES RECEIVABLE

As of June 30, 2019, contributors to Educare have made written promises to give totaling \$425,000. Pledges due in more than one year have been recorded at the present value of the estimated cash flow, using the applicable rate from the daily treasury yield curve. Pledges are due as follows at June 30, 2019:

Less than one year	\$ 175,000
One to five years	<u>250,000</u>
Total	425,000
Less: Allowance to discount balance to present value	<u>(9,376)</u>
PLEDGES RECEIVABLE	<u>\$ 415,624</u>

4. CAPITAL LEASE OBLIGATION

In August 2012, Educare entered into a 65-year capital lease agreement with Bounce D.C., a related party (Note 11), which expires on September 6, 2077, to rent property located at 640 Anacostia Avenue, NE, Washington, D.C.

As part of the agreement, Educare, at the time of execution of the agreement, paid a one-time lump sum payment of \$12,700,000, which represented the full amount of rent due during the lease term.

Because the term of the lease is more than 75% of the estimated useful life of the corresponding asset, the property is being depreciated using the straight-line method over the term of the lease. Because of the lump sum payment, there are no future payments due for the remainder of the lease.

As of June 30, 2019, the cost and related accumulated amortization of the leased asset were \$12,700,000 and \$1,318,854, respectively. Amortization of assets held under capital leases is included with depreciation and amortization expense.

5. NOTES PAYABLE

Educare entered into the detailed notes payable below in relation to the New Markets Tax Credit (NMTC) transaction (Note 6):

On September 6, 2012, Educare entered into a loan with Community Urban Revitalization Enterprises IV, LLC in the amount of \$3,538,670, bearing interest at 1.227%. The note is secured by a leasehold deed of trust on property located at 640 Anacostia Avenue, NE, Washington, D.C. Quarterly interest-only payments are due during the first seven [7] years of the note (through October 2019). Commencing in January 2020, quarterly interest and principal payments of \$37,565 are due until October 2047, when the note matures.

\$ 3,538,670

On September 6, 2012, Educare entered into a loan with Community Urban Revitalization Enterprises IV, LLC in the amount of \$8,358,530, bearing interest at 1.227%. The note is secured by a leasehold deed of trust on property located at 640 Anacostia Avenue, NE, Washington, D.C. Quarterly interest-only payments are due during the first seven [7] years of the note (through October 2019). Commencing in January 2020, quarterly interest and principal payments of \$88,730 are due until October 2047, when the note matures.

8,358,530

EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

5. NOTES PAYABLE (Continued)

On September 6, 2012, Educare entered into a loan with USBCDE Sub-CDE 75, LLC in the amount of \$1,158,460, bearing interest at 1.227%. The note is secured by a leasehold deed of trust on property located at 640 Anacostia Avenue, NE, Washington, D.C. Quarterly interest-only payments are due during the first seven [7] years of the note (through October 2019). Commencing in January 2020, quarterly interest and principal payments of \$12,298 are due until October 2047, when the note matures.

\$ 1,158,460

On September 6, 2012, Educare entered into a loan with USBCDE Sub-CDE 75, LLC in the amount of \$2,341,540, bearing interest at 1.227%. The note is secured by a leasehold deed of trust on property located at 640 Anacostia Avenue, NE, Washington, D.C. Quarterly interest-only payments are due during the first seven [7] years of the note (through October 2019). Commencing in January 2020, quarterly interest and principal payments of \$24,857 are due until October 2047, when the note matures.

2,341,540

Subtotal notes payable 15,397,200

Less deferred financing costs, net of accumulated amortization of \$96,206 (402,639)

NOTES PAYABLE, NET \$ 14,994,561

Aggregate annual principal payments are due as follows:

Year Ending June 30,

2021	\$ 231,189
2022	466,654
2023	472,402
2024	478,224
Thereafter	<u>13,748,731</u>
	<u>\$ 15,397,200</u>

Interest expense on these debt instruments for the year ended June 30, 2019 totaled \$188,924, and it is included in occupancy charges in the accompanying Statement of Functional Expenses.

Educare is subject to informational reporting debt covenants.

6. NEW MARKETS TAX CREDIT

In September 2012, Educare financed the building of the school through the NMTC program. U.S. Bancorp Community Development Corporation (USBCDC), a Missouri limited liability company, contributed \$4,947,930 in equity to the Educare D.C. NMTC Investment Fund, LLC (the Fund), a District of Columbia non-profit corporation. In conjunction with this equity investment, Bounce D.C., made a loan of \$10,700,070 to the Fund.

In turn, the Fund made a \$15,640,000 Qualifying Equity Investment in Community Urban Revitalization Enterprises IV, LLC (CURE), a District of Columbia limited liability company, and USBCDE Sub-CDE 75, LLC (USBCDE), a Missouri limit liability company. In return, CURE allocated \$6,099,600 in New Markets Tax Credits (the Credits) to the Fund. CURE then made loans to Educare for \$11,897,200 and USBCDE made loans of \$3,500,000, for a total of \$15,397,200, which was used to finance the building of the school.

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

6. **NEW MARKETS TAX CREDIT (Continued)**

The loan held by Bounce D.C. is receivable over 35 years and compounds annually at an interest rate of 1.227%. The Fund will pay Bounce D.C. quarterly interest-only payments at a rate of 1.227% of the outstanding balance for the first seven years on the fifth day following the end of the quarter of each year.

The Fund will commence making quarterly interest and principal payments of \$163,450 in January 2020. The loan matures on October 2047. The loan receivable coincides with the timing of Educare's loan payable which consists of four tranches, CURE Loan A, CURE Loan B, USBCDE Loan C and USBCDE Loan D. Please refer to for further details.

In September 2019, when the NMTC period expired, the USBCDE exercised its put option to sell its ownership interest in the Fund to Bounce D.C. and the Fund was liquidated and its assets distributed to Bounce D.C. In conjunction with this event, CURE was liquidated and its assets distributed to the Fund. Immediately after the exit transactions were completed, Bounce D.C. became the holder of Educare's note payable. The loans were forgiven. As a result, in fiscal year 2020 Educare recognized a contribution of \$15,423,950 to reflect the forgiveness of the loans.

7. **NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following at June 30, 2019:

Advocacy for Low Income Children	\$ 19,486
Red Nose	30,232
Time Restricted	<u>1,878,000</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 1,927,718</u>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Advocacy for Low Income Children	\$ 30,514
Red Nose	9,811
Best Practices Training	30,000
Quality Improvement Network Implementation	175,000
Passage of Time	<u>223,000</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 468,325</u>

8. **LIQUIDITY AND AVAILABILITY**

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents - without restrictions	\$ 2,500,104
Accounts receivable	505,405
Pledges receivable, current	175,000
Grants receivable	<u>875,021</u>
Subtotal financial assets available within one year	4,055,530
Less: Donor restricted funds	<u>(49,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 4,006,530</u>

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

8. LIQUIDITY AND AVAILABILITY (Continued)

Educare is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Educare must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Educare's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

9. RETIREMENT PLAN

Educare provides retirement benefits to its employees through a 403(b) plan covering all full-time employees after 90 days of continued service. Educare contributed 2% of gross wages plus a 1% match. Contributions to the Plan during the year ended June 30, 2019 totaled \$55,000 and are included in payroll expenses in the Statement of Functional Expenses.

10. CONTINGENCY

Educare receives grants from various agencies of the United States Government. Beginning for fiscal year ended June 30, 2016, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits.

Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2019. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

11. IN-KIND CONTRIBUTIONS

During the year ended June 30, 2019, Educare was the beneficiary of donated goods and services which allowed Educare to provide greater resources toward various programs.

To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended June 30, 2019.

Donated Accounting Services	\$	15,900
Donated HR Services		22,200
Donated Legal Fees		17,139
Donated Rent		<u>23,958</u>
	\$	<u><u>79,197</u></u>

The following programs have benefited from these contributed services and materials:

Program Services	\$	23,958
Management and General		<u>55,239</u>
	\$	<u><u>79,197</u></u>

EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

12. RELATED PARTY

Bounce D.C. is a 501(c)(3) non-profit organization. The Presidents of Bounce D.C. serve as members of Educare's Board of Directors. During the year, Bounce D.C. provided contributions to Educare to assist in the administering of its program. These contributions totaled \$107,001 for the year ended June 30, 2019.

13. NET ASSETS WITHOUT DONOR RESTRICTIONS NET DEFICIT

Educare has a net assets without donor restrictions net deficit balance of \$1,073,122 as of June 30, 2019, which is a direct result of the NMTC transaction (Note 6) and the related notes payable (Note 5). When the NMTC period expires in fiscal year 2020, the deficit balance will be reversed and will be a positive net asset balance, as detailed in Note 6.

Management continues to closely monitor operations with a focus on increasing revenue resources and implementing cost reduction and saving measures. See subsequent event discussion in Note 14.

14. SUBSEQUENT EVENTS

In preparing these financial statements, Educare has evaluated events and transactions for potential recognition or disclosure through December 12, 2019, the date the financial statements were issued. The NMTC transaction unwound in September 2019 as further explained in Note 6.

SUPPLEMENTAL INFORMATION

EDUCARE OF WASHINGTON, DC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed- Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Health and Human Services (HHS)				
United Planning Organization - Head Start/Early Head Start	93.600	070517-R2	\$ -	\$ 1,732,868
Early Head Start - CC Partnership	93.600	N/A	<u>-</u>	<u>302,570</u>
Total CFDA 93.600 and U.S Department of HHS			<u>-</u>	<u>2,035,438</u>
U.S. Department of Agriculture (USDA)				
DC Office of the State Superintendent of Education - Child and Adult Care Food Program	10.558	CACFP #V-274	<u>-</u>	<u>188,939</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>-</u>	\$ <u>2,224,377</u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of Educare under programs of the Federal government for the year ended June 30, 2019. 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 Educare, it is not intended to and does not present the financial position, changes in net assets or cash flows of Educare.

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

EDUCARE OF WASHINGTON, DC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting: Unmodified

2). Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

3). Noncompliance material to financial statements noted? Yes No

Federal Awards

4). Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

5). Type of auditor's report issued on compliance for major federal programs: Unmodified

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

7). Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start/Early Head Start

8). Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

9). Auditee qualified as a low-risk auditee? Yes No

EDUCARE OF WASHINGTON, DC

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

There were no reportable findings.



CPAs & ADVISORS

**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**

Independent Auditor's Report

To the Board of Directors
Educare of Washington, DC
Washington, D.C.

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 Educare of Washington, DC (Educare) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Educare's basic financial statements, and have issued our report thereon dated December 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Educare'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Educare's internal control. Accordingly, we do not express an opinion on the effectiveness of Educare'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 Educare'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educare'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 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 entity'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.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

December 12, 2019



CPAs & ADVISORS

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

Independent Auditor's Report

To the Board of Directors
Educare of Washington, DC
Washington, D.C.

Report on Compliance for Each Major Federal Program

We have audited Educare of Washington, DC's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Educare's major federal programs for the year ended June 30, 2019. Educare'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 Federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Educare'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 a major federal program occurred. An audit includes examining, on a test basis, evidence about Educare'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 Educare's compliance.

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Opinion on Each Major Federal Program

In our opinion, Educare 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, 2019.

Report on Internal Control Over Compliance

Management of Educare 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 Educare'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 an 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 Educare'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.



December 12, 2019