



AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED JUNE 30, 2020

EDUCARE OF WASHINGTON, DC

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FINANCIAL STATEMENTS



**FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2019**

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, 2020, 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.

4550 MONTGOMERY AVENUE • SUITE 800 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • WWW.GRFCPA.COM

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 12, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 pages I-(19 - 20), 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 28, 2020 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 28, 2020

EDUCARE OF WASHINGTON, DC
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

ASSETS		<u>2020</u>	<u>2019</u>
CURRENT ASSETS			
Cash and cash equivalents - without restrictions	\$	5,154,568	\$ 2,500,104
Accounts receivable		370,682	505,405
Pledges receivable, current		175,000	175,000
Grants receivable		596,082	875,021
Prepaid expenses		<u>66,398</u>	<u>124,553</u>
Total current assets		<u>6,362,730</u>	<u>4,180,083</u>
PROPERTY AND EQUIPMENT			
Capital lease building		12,700,000	12,700,000
Furniture and equipment		569,578	552,230
Leasehold improvements		220,342	105,826
Other		<u>15,000</u>	<u>15,000</u>
		13,504,920	13,373,056
Less: Accumulated depreciation and amortization		<u>(1,993,749)</u>	<u>(1,702,135)</u>
Net property and equipment		<u>11,511,171</u>	<u>11,670,921</u>
OTHER ASSETS			
Cash and cash equivalents - restricted		-	75,435
Pledges receivable, net of current portion and discount		<u>72,595</u>	<u>240,624</u>
Total other assets		<u>72,595</u>	<u>316,059</u>
TOTAL ASSETS	\$	<u>17,946,496</u>	\$ <u>16,167,063</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$	383,405	\$ 180,825
Accrued salaries and related benefits		266,400	137,081
Loan payable, current portion		<u>47,173</u>	<u>-</u>
Total current liabilities		696,978	317,906
LONG-TERM LIABILITIES			
Loan payable, net of current portion		<u>75,927</u>	<u>14,994,561</u>
Total liabilities		<u>772,905</u>	<u>15,312,467</u>
NET ASSETS			
Without donor restrictions:			
Undesignated		<u>1,421,031</u>	<u>(12,744,043)</u>
Board designated:			
Operating reserve		989,500	-
Building reserve		<u>1,048,400</u>	<u>-</u>
Total board designated		<u>2,037,900</u>	<u>-</u>
Invested in fixed assets		<u>11,511,171</u>	<u>11,670,921</u>
Total net assets without donor restrictions		14,970,102	(1,073,122)
With donor restrictions		<u>2,203,489</u>	<u>1,927,718</u>
Total net assets		<u>17,173,591</u>	<u>854,596</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>17,946,496</u>	\$ <u>16,167,063</u>

See accompanying notes to financial statements.

EDUCARE OF WASHINGTON, DC

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Contributions and grants	\$ 3,109,506	\$ 2,363,153	\$ 5,472,659	\$ 5,618,063
Federal grants	4,831,069	-	4,831,069	2,224,377
In-kind contributions	581,013	-	581,013	79,197
Program income	10,028	-	10,028	21,568
Other revenue	50,888	-	50,888	22,021
Net assets released from donor restrictions	<u>2,087,382</u>	<u>(2,087,382)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>10,669,886</u>	<u>275,771</u>	<u>10,945,657</u>	<u>7,965,226</u>
EXPENSES				
Program Services	<u>8,517,413</u>	<u>-</u>	<u>8,517,413</u>	<u>5,237,033</u>
Supporting Services:				
Management and General	1,196,236	-	1,196,236	507,624
Fundraising/Development	<u>310,213</u>	<u>-</u>	<u>310,213</u>	<u>275,766</u>
Total supporting services	<u>1,506,449</u>	<u>-</u>	<u>1,506,449</u>	<u>783,390</u>
Total expenses	<u>10,023,862</u>	<u>-</u>	<u>10,023,862</u>	<u>6,020,423</u>
Change in net assets before other item	646,024	275,771	921,795	1,944,803
OTHER ITEM				
Contribution due to unwind of NMTC	<u>15,397,200</u>	<u>-</u>	<u>15,397,200</u>	<u>-</u>
Change in net assets	16,043,224	275,771	16,318,995	1,944,803
Net (deficit) assets at beginning of year	<u>(1,073,122)</u>	<u>1,927,718</u>	<u>854,596</u>	<u>(1,090,207)</u>
NET ASSETS AT END OF YEAR	<u>\$ 14,970,102</u>	<u>\$ 2,203,489</u>	<u>\$ 17,173,591</u>	<u>\$ 854,596</u>

EDUCARE OF WASHINGTON, DC

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	2020				2019	
	Supporting Services			Total Supporting Services	Total Expenses	Total Expenses
	Program Services	Management and General	Fundraising/ Development			
Payroll expenses	\$ 4,928,476	\$ 27,124	\$ 249,551	\$ 276,675	\$ 5,205,151	\$ 3,853,056
Professional services and contracts	1,310,435	468,610	30,259	498,869	1,809,304	1,038,473
Occupancy charges	1,020,403	569,658	10,741	580,399	1,600,802	776,628
Business expenses	60,613	65,132	-	65,132	125,745	62,126
Equipment	46,824	11,026	2,137	13,163	59,987	23,224
Training	88,545	2,928	-	2,928	91,473	49,226
Office expenses	276,265	10,362	10,137	20,499	296,764	109,907
Communications	3,180	1,711	7,201	8,912	12,092	10,050
Child services and activities	702,294	-	-	-	702,294	41,610
Travel and meetings	80,378	39,685	187	39,872	120,250	56,123
TOTAL	\$ 8,517,413	\$ 1,196,236	\$ 310,213	\$ 1,506,449	\$ 10,023,862	\$ 6,020,423

See accompanying notes to financial statements.

EDUCARE OF WASHINGTON, DC

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 16,318,995	\$ 1,944,803
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	291,614	265,631
Discount on long-term pledges receivable	2,405	9,376
Net deferred financing costs	402,639	14,252
Contribution due to unwind of NMTC	(15,397,200)	-
Decrease (increase) in:		
Accounts receivable	134,723	(445,405)
Pledges receivable	165,624	(234,891)
Grants receivable	278,939	(154,354)
Prepaid expenses	58,155	(71,510)
Increase in:		
Accounts payable and accrued liabilities	202,580	9,634
Accrued salaries and related benefits	<u>129,319</u>	<u>12,055</u>
Net cash provided by operating activities	<u>2,587,793</u>	<u>1,349,591</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(131,864)</u>	<u>(59,810)</u>
Net cash used by investing activities	<u>(131,864)</u>	<u>(59,810)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	<u>123,100</u>	<u>-</u>
Net cash provided by financing activities	<u>123,100</u>	<u>-</u>
Net increase in cash and cash equivalents	2,579,029	1,289,781
Cash and cash equivalents, including restricted cash, at beginning of year	<u>2,575,539</u>	<u>1,285,758</u>
CASH AND CASH EQUIVALENTS, INCLUDING RESTRICTED CASH, AT END OF YEAR	<u>\$ 5,154,568</u>	<u>\$ 2,575,539</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	<u>\$ 38,620</u>	<u>\$ 188,924</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION:		
Unwound of Long Term Debt in Relation to New Market Tax Credit Transaction	<u>\$ 15,397,200</u>	<u>\$ -</u>

See accompanying notes to financial statements.

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EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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. Since opening in 2012, Educare DC has increased its capacity significantly, from 160 children in Educare's custom-built, state-of-the-art early childhood center in Parkside, to 304 children across 5 additional partner sites in DC's Wards 7 and 8.

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 16 states across America. The 25 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. Educare is one of 12% of early learning programs in DC to receive the High-Quality designation.

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.

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

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

Programs (continued) -

Early Head Start / Head Start (continued) -

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.

Head Start Program Expansion in FY21 -

Educare was awarded \$6,493,924 in July 2020 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 will fully implement a 0-5 continuum of care, through the provision of Head Start (HS) comprehensive services for 24 prenatal women, 160 infants and toddlers and 60 pre-k children.

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 of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are 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". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported 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.

EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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

Basis of presentation (continued) -

- **Net Assets With Donor Restrictions (continued)** - All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. 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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

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, 2019, from which the summarized information was derived.

New accounting pronouncement adopted -

During 2020, Educare adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. Educare adopted the ASU using a modified prospective basis.

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.

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.

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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

Property and equipment (continued) -

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, 2020 totaled \$291,614, 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, 2020.

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, 2020, 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.

Contributions and grants -

The majority of Educare's revenue is received through contributions as well as grants from foundations and the U.S. Government. Contributions and grants are recognized in the appropriate category of net assets in the period received. Educare performs an analysis of the individual contribution and grants to determine if the revenue streams follow the contributions rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal.

For contributions and grants qualifying under the contributions rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the condition on which they depend are substantially met. Contributions and grants qualifying as contributions that are unconditional that have 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.

Grant agreements qualifying as conditional contributions contain a right of return and a barrier.

EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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

Contributions and grants (continued) -

Revenue is recognized when the condition or conditions are satisfied. Most grant awards from the government are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, Educare recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. For contributions and grants treated as conditional contributions, Educare had approximately \$2,538,213 in unrecognized conditional awards as of June 30, 2020.

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.

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact Educare's operations. The overall potential impact is unknown at this time.

New accounting pronouncement (not yet adopted) -

FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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

New accounting pronouncement (not yet adopted) (continued) -

Educare plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standards on its accompanying financial statements.

2. **RESTRICTED CASH**

As part of the New Markets Tax Credit (NMTC) transaction (see Note 7), 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. In September 2019, the NMTC was unwound. Accordingly, as of June 30, 2020 there was no restricted cash.

3. **PLEDGES RECEIVABLE**

As of June 30, 2020, contributors to Educare have made written promises to give, of which \$250,000 remained due and outstanding. 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, 2020:

Less than one year	\$ 175,000
One to five years	<u>75,000</u>
Total	250,000
Less: Allowance to discount balance to present value	<u>(2,405)</u>
PLEDGES RECEIVABLE	<u>\$ 247,595</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 13), 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, 2020, the cost and related accumulated amortization of the leased asset were \$12,700,000 and \$1,514,239, respectively. Amortization of assets held under capital leases is included with depreciation and amortization expense.

5. **LOAN PAYABLE**

On May 4, 2020, Educare received loan proceeds in the amount of \$123,100 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first seven months.

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

5. LOAN PAYABLE (Continued)

Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. Educare intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. Educare intends to apply for forgiveness after completing the 8 week period. If forgiveness is granted, Educare will record revenue from debt extinguishments during the period that forgiveness was approved.

Principal payments as stated in the promissory note are due as follows unless otherwise forgiven:

Year Ending June 30,

2021	\$ 47,173
2022	<u>75,927</u>
	<u>\$ 123,100</u>

6. BOARD DESIGNATED NET ASSETS

During the year ended June 30, 2020, Educare ended with a surplus, due in part to lower than budgeted spending in the initial months of its COVID-19 related facility closure, as well as receipt of purpose-restricted and COVID-relief private donations. Management is preparing for the potential impacts of the pandemic, including any financial downturn or volatility in charitable giving or government funding that may result from the economic ramifications of the pandemic. Management is also planning for the possibility of new demands on financial resources due to the increased cost of reopening safely and continuing a hybrid in-person and virtual teaching model.

In order to plan and manage for future needs, during the year ended June 30, 2020, the Board of Directors have designated net assets for the following purposes:

Operating Reserve	\$ 989,500
Building Reserve	<u>1,048,400</u>
BOARD DESIGNATED NET ASSETS	<u>\$ 2,037,900</u>

The creation of these reserves will:

- Ensure the stability of the mission, programs, employment and ongoing operations of the organization.
- Buffer Educare from financial challenges that may be encountered in the future, including sudden reductions in public or private funding, turbulence in the economy overall, and critical unexpected and/or unbudgeted spending needs.
- Protect and maintain the agency's single biggest asset, a \$12M building, which is currently eight years old and may need additional maintenance and improvements in the coming years.
- Ease any revenue seasonality or other cash-flow issues.

7. 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.

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

7. NEW MARKETS TAX CREDIT (Continued)

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.

The loan held by Bounce D.C. was receivable over 35 years and compounded annually at an interest rate of 1.227%. The Fund was paying 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 would have commenced making quarterly interest and principal payments of \$163,450 in January 2020. The loan was maturing on October 2047. The loan receivable coincided with the timing of Educare's loan payable which consisted of four tranches, CURE Loan A, CURE Loan B, USBCDE Loan C and USBCDE Loan D.

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 in the amount of \$14,994,561, net of financing fees in the amount of \$402,639, were forgiven. As a result, during the year ended June 30, 2020, Educare recognized a contribution of \$15,397,200 to reflect the forgiveness of the loans.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2020:

Advocacy for Low Income Children	\$	40,255
Red Nose		10,638
Early Educator Fellowship		131,090
Covid Response		48,854
Intensive Family Engagement		150,000
Hub/ELN		22,652
Time Restricted		<u>1,800,000</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$	<u>2,203,489</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	\$	99,231
Red Nose		71,052
Covid Response		16,146
Quality Improvement Network Implementation		200,000
Hub/ELN		12,348
Family Engagement		10,000
Early Educator Fellowship		50,605
Passage of Time		<u>1,628,000</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$	<u>2,087,382</u>

EDUCARE OF WASHINGTON, DC

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

9. 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	\$ 5,154,568
Accounts receivable	370,682
Pledges receivable, current	175,000
Grants receivable	<u>596,082</u>
Subtotal financial assets available within one year	6,296,332
Less: Donor restricted funds	(478,489)
Less: Board-designated funds	<u>(2,037,900)</u>

**FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS
FOR GENERAL EXPENDITURES WITHIN ONE YEAR** **\$ 3,779,943**

Educare is substantially supported by government grants and 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.

10. 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, 2020 totaled \$96,647 and are included in payroll expenses in the Statement of Functional Expenses.

11. CONTINGENCY

Educare receives grants from various agencies of the United States Government. 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 (Uniform Guidance)*.

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 2020. 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.

12. IN-KIND CONTRIBUTIONS

During the year ended June 30, 2020, Educare was the beneficiary of donated goods and services which allowed Educare to provide greater resources toward various programs.

EDUCARE OF WASHINGTON, DC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

12. IN-KIND CONTRIBUTIONS (Continued)

To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended June 30, 2020.

Donated Accounting Services	\$ 15,900
Donated HR Services	36,000
Donated Legal Fees	83,529
Donated Rent	<u>445,584</u>
TOTAL	<u>\$ 581,013</u>

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

Program Services	\$ 474,264
Management and General	<u>106,749</u>
TOTAL	<u>\$ 581,013</u>

13. 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 \$49,853 for the year ended June 30, 2020.

14. SUBSEQUENT EVENTS

In preparing these financial statements, Educare has evaluated events and transactions for potential recognition or disclosure through December 28, 2020, the date the financial statements were issued.

Subsequent to year end, Educare entered into a five-year lease agreement to rent space for additional classrooms. Lease payments started December 1, 2020 in the amount of \$23,333 per month.

Additionally, In December 2020, Educare has received an approval letter for a \$1 million term loan and \$500,000 working capital line of credit. The loan has not yet closed as of the date of this report.

SUPPLEMENTAL INFORMATION

EDUCARE OF WASHINGTON, DC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

<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)				
CCDF Cluster - The Child Care and Development Fund				
DC Office of the State Superintendent of Education - Child Care and Development Block Grant	93.575	AT2811956	\$ -	\$ 109,257
Sub-total CCDF Cluster - The Child Care and Development Fund			<u>-</u>	<u>109,257</u>
Head Start Cluster				
United Planning Organization - Head Start/Early Head Start	93.600	070517-R2	-	1,085,926
Early Head Start	93.600	N/A	-	3,490,647
Sub-total Head Start Cluster			<u>-</u>	<u>4,576,573</u>
Total U.S. Department of Health and Human Services (HHS)			<u>-</u>	<u>4,685,830</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	-	145,239
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ -</u>	<u>\$ 4,831,069</u>

EDUCARE OF WASHINGTON, DC

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2020. 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 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, 2020

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:

CFDA Number	Name of Federal Program or Cluster
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, 2020**

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, 2020, and the related notes to the financial statements, which collectively comprise Educare's basic financial statements, and have issued our report thereon dated December 28, 2020.

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) as a basis for designing 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.

4550 MONTGOMERY AVENUE • SUITE 800 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • WWW.GRFCPA.COM

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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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 28, 2020



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, 2020. 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, 2020.

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 28, 2020