

**EDUCARE DC**

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**AND**

**OMB CIRCULAR A-133 AUDIT  
FOR THE YEAR ENDED JUNE 30, 2013**

**EDUCARE DC  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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# **F.S. TAYLOR & ASSOCIATES, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Educare DC

### **Report on the Financial Statements**

We have audited the accompanying statement of financial position of Educare DC (Educare) as of June 30, 2013, and the related statement of activities, cash flows, and functional expenses for the year ended June 30, 2013. These financial statements are the responsibility of Educare's management. Our responsibility is to express an opinion on these financial statements based on our audit.

### ***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.

### ***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, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 21 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 October 22, 2013, 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.

*J. S. Taylor & Associates, P.C.*

October 22, 2013

**EDUCARE DC  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2013**

**ASSETS**

Current assets:

Cash and cash equivalents - unrestricted	\$ 137,557
Investments	95,153
Grants receivable	120,442
Accounts receivable	26,750
Total current assets	<u>379,902</u>

Net property and equipment	13,027,795
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Other assets:

Restricted cash - loan reserves	832,595
Prepaid expenses	57,888
Total other assets	<u>890,483</u>

Total assets	<u>\$ 14,298,180</u>
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**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable and accrued expenses	\$ 71,024
Accrued compensation expense	245,758
Due to related parties (Note 11)	132,541
Total current liabilities	<u>449,323</u>

Long term debt, less current portion	<u>15,397,200</u>
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Total liabilities	15,846,523
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Net assets:

Unrestricted	<u>(1,548,343)</u>
Total net deficit	<u>(1,548,343)</u>

Total liabilities and net assets	<u>\$ 14,298,180</u>
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SEE NOTES TO THE FINANCIAL STATEMENTS

**EDUCARE DC  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

**Public Support and Revenue**

Federal contracts and grants	\$ 1,404,936
Non-federal contributions and grants	1,365,772
New market tax credit revenue	87,681
Special event income	1,500
Unrealized losses	(3,865)
In-kind contributions	6,575
Total public support and revenue	<u>2,862,599</u>

**Expenses**

Program expenses:	
Headstart - HHS	382,500
Early Headstart - HHS	972,000
CACFP - OSSE	50,436
Other direct services	1,887,560
Total program expenses	<u>3,292,496</u>

Supporting services:	
Management and general	1,118,190
Total expenses	<u>4,410,685</u>

Decrease in net assets (1,548,086)

Net deficit at beginning of year (257)

Net deficit at end of year \$ (1,548,343)

SEE NOTES TO THE FINANCIAL STATEMENTS

**EDUCARE DC**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Decrease in net assets	\$ (1,548,086)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	172,205
Unrealized losses	3,865
(Increase) decrease in operating assets:	
Grants receivable	(120,442)
Accounts receivable	(26,368)
Prepaid expenses	(29,225)
Increase (decrease) in operating liabilities:	
Accounts payable/accrued expenses	26,465
Accrued compensation expense	196,256
Deferred revenue	(137,753)
Due to related parties	132,316
Net cash used in operating activities	<u>(1,330,767)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Net purchase of investments	(99,018)
Purchase of property and equipment	<u>(13,200,000)</u>
Net cash used in investing activities	<u>(13,299,018)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from loans	<u>15,397,200</u>
Net cash provided by financing activities	<u>15,397,200</u>
Net increase in cash and cash equivalents	767,415
Cash and cash equivalents at beginning of year	<u>202,737</u>
Cash and cash equivalents at end of year	<u><u>\$ 970,152</u></u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Interest paid	<u><u>\$ 154,812</u></u>
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SEE NOTES TO THE FINANCIAL STATEMENTS

**EDUCARE DC  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2013**

	Program Services					Supporting Services	2013 Total
	UPO - Head Start	UPO - Early Head Start	OSSE - CACFP	Other Direct Services	Total Program Services	General and Administrative	
Salaries and fringe benefits	\$ 338,851	\$ 888,696	\$ -	\$ 802,734	\$ 2,030,281	\$ 381,162	\$ 2,411,443
Consultants	697				697		697
Travel	222	408			630	395	1,025
Utilities	14,750	23,036			37,785		37,785
Supplies	7,668	24,604		57,633	89,905	32,225	122,131
Communications				1,295	1,295	5,507	6,801
Accounting and auditing	901	3,296			4,196		4,196
Occupancy costs				83,297	83,297	142,828	226,125
Professional services				492,465	492,465	134,573	627,038
Miscellaneous				1,353	1,353	12,025	13,378
Insurance/bonding	1,269	3,926			5,195		5,195
Food service	572	3,605	50,436		54,613	13,393	68,006
Repairs and maintenance	13,055	19,532			32,587	6,774	39,361
Training and education	3,898	4,748		685	9,330	8,083	17,413
In-kind expenses				4,781	4,781	1,594	6,375
Parent services	617	150			767		767
Management fees paid to UPO (Note 11)				89,024	89,024	336,580	425,604
Salary reimbursements paid to UPO (Note 11)				70,327	70,327		70,327
Interest				154,812	154,812		154,812
Depreciation				129,154	129,154	43,051	172,205
Total expenses	<u>\$ 382,500</u>	<u>\$ 972,000</u>	<u>\$ 50,436</u>	<u>\$ 1,887,560</u>	<u>\$ 3,292,496</u>	<u>\$ 1,118,190</u>	<u>\$ 4,410,685</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

**EDUCARE DC  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – BACKGROUND**

Incorporated in 2010 in the District of Columbia as a 501(c)(3) non-profit organization, Educare DC (Educare) is an early childhood education school and community center built to serve the children and families of Ward 7.

Educare is part of the larger Educare Learning Network known as Bounce DC (Bounce), which is a partnership between the Ounce of Prevention Fund, the Buffett Early Childhood Fund, and other national philanthropies and public/private partners from more than a dozen states across America. Established in 2003, Bounce is 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.

Funding for Educare is primarily in the form of a Head Start/Early Head Start federal grant, as well as contributions from the Bounce Network.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Statement Presentation** – In accordance with FASB ASC 958-225, Educare is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization. Educare currently has no temporarily or permanently restricted net assets.

**Basis of Accounting** – The financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

**Use of Estimates** – Preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents** – For purposes of the statement of cash flows, Educare considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**EDUCARE DC  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)**

**Contributions** – Educare recognizes the full amount of the contributions and grants received in the period that they were made as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

**Contributions – (Continued)** – Educare reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, or a stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Educare records donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support. Unrestricted contributions of long-lived assets and cash to acquire long-lived assets are treated as unrestricted when the acquired assets are placed in service. Educare records non-cash contributions at their estimated fair market value at the date of the contribution. Contributions to be received after one year are discounted at an appropriate discount commensurate with the risk involved. Amortization of the discount is recorded as additional contribution or grant revenue.

**Joint Costs Allocated** – Certain costs are allocated among program services, management and general and fundraising based on activity as determined by management.

**Fair Value of Financial Instruments** – Generally accepted accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques that measure fair market value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements).

The following methods and assumptions were used by Educare in estimating the fair value of its financial instruments.

*Cash and cash equivalents* – The carrying amount in the statement of financial position approximates fair value because of the short-term maturity of these instruments. Recorded balances consider Level 1 measurements.

*Contracts, grants, and other accounts receivable* – All receivables are expected to be collected within one year of the reporting date. Therefore, no discount has been applied. The carrying amount in the statement of financial position approximates fair value because of the short-term maturity of these receivables.

**EDUCARE DC  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)**

**Concentrations of Credit and Market Risk** – Financial instruments, which potentially subject Educare to concentrations of credit risk, consist primarily of cash. Educare maintains its cash in bank deposit accounts, which may exceed federally-insured limits. As of June 30, 2013, the amount held in excess of the FDIC-insured limit of \$250,000 was \$470,152. Funds are also maintained in various investment accounts which are not FDIC insured. Educare has not experienced any such losses in these accounts, and management believes it is not exposed to any significant credit risk.

During the year ended June 30, 2013, revenue from the Head Start grant accounted for approximately 47% of total support and revenues.

**Tax Status** – Educare DC is exempt, except for property taxes related to its land and building located at 640 Anacostia Ave, from taxes under Internal Revenue Codes 501(c)(3). There was no unrelated business income for the year ended June 30, 2013. Similarly, Educare is registered as a charitable organization in the District of Columbia and is exempt from DC income taxation.

Educare’s Forms 990, *Return of Organization Exempt from Income Tax*, are subject to examination by the IRS, generally, for three years after they are filed. Annual filings with the District of Columbia are, similarly, subject to examination.

**NOTE 3 – RESTRICTED CASH**

As part of the New Market Tax Credit (NMTC) deal (see Note 11), 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, 2013, restricted cash consisted of the following:

Working capital reserves	\$	297,448
Debt service reserves		535,147
Total Restricted Cash	\$	<u>832,595</u>

**NOTE 4 – INVESTMENTS**

In accordance with generally accepted accounting principles, Educare uses the following prioritized input levels to measure fair value of financial instruments. The input levels used for valuing financial instruments are not necessarily an indication of risk.

**EDUCARE DC  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 4 – INVESTMENTS – (CONTINUED)**

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity’s assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

The following is a summary of the input levels used to determine fair values of assets, measured at fair value on a recurring basis, at June 30, 2013:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stock	\$ 95,153	\$ 95,153	\$ -	\$ -

**NOTE 5 – GRANTS RECEIVABLE**

Grants receivable as of June 30, 2013 consists of amounts due from various grantors/funding agencies for service provided or for work accomplished under the terms of the respective grants prior to June 30, 2013. Management periodically reviews the status of all grants receivable balances for collectability. Each receivable balance is assessed based on management’s knowledge of and relationship with the grantor and the age of the receivable balance. As of June 30, 2013, management believes the outstanding balances are fully collectible and, therefore, has not established an allowance for doubtful receivables.

Grants receivable as of June 30, 2013 consisted of the following:

<u>Grantor</u>	<u>Outstanding Balance</u>
UPO - Head Start	\$ 18,075
UPO - Early Head Start	86,082
OSSE - Child and Adult Care Food	16,285
Total Grants Receivable	<u>\$ 120,442</u>

**EDUCARE DC  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 6 – PROPERTY AND EQUIPMENT**

Purchased property and equipment are recorded at cost. Donated property and equipment is recorded at fair value at the time of contribution. Major renewals and betterments, including leasehold improvements, are capitalized; while maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. Depreciation is recorded on the straight-line basis over the estimated useful lives of the property and equipment. Leasehold improvements and capital leased assets are amortized over the term of the lease or the estimated useful life of the asset, depending on whether or not the lease is considered capital because of a transfer of rights to the lessee at the end of the lease term or if the lease includes a bargain purchase option.

A summary of property and equipment at June 30, 2013 is as follows:

<b><u>Description</u></b>	
Land	\$ 1,260,615
Building	11,439,385
Furniture and equipment	<u>500,000</u>
Total property and equipment	13,200,000
Less: accumulated depreciation and amortization	(172,205)
Net property and equipment	<u><u>\$ 13,027,795</u></u>

Depreciation expense for the year ended June 30, 2013 was \$172,205.

**EDUCARE DC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 7 – NOTES PAYABLE**

Notes payable consisted of the following as of June 30, 2013:

Secured 1.227% note payable to Community Urban Revitalization Enterprises IV, LLC in the principal amount of \$3,538,670, dated September 6, 2012. The note is secured by a leasehold deed of trust on property located at 640 Anacostia Avenue NE, Washington, DC. Quarterly interest-only payments are due during the first 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

Secured 1.227% note payable to Community Urban Revitalization Enterprises IV, LLC in the principal amount of \$8,358,530, dated September 6, 2012. The note is secured by a leasehold deed of trust on property located at 640 Anacostia Avenue NE, Washington, DC. Quarterly interest-only payments are due during the first 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

Secured 1.227% note payable to USBCDE Sub-CDE 75, LLC in the principal amount of \$1,158,460, dated September 6, 2012. The note is secured by a leasehold deed of trust on property located at 640 Anacostia Avenue NE, Washington, DC. Quarterly interest-only payments are due during the first 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

Secured 1.227% note payable to USBCDE Sub-CDE 75, LLC in the principal amount of \$2,341,540, dated September 6, 2012. The note is secured by a leasehold deed of trust on property located at 640 Anacostia Avenue NE, Washington, DC. Quarterly interest-only payments are due during the first 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

Total notes payable	\$ 15,397,200
Less current portion	-
Note payable, net of current portion	<u><u>\$ 15,397,200</u></u>

**EDUCARE DC  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 7 – NOTES PAYABLE – (CONTINUED)**

Future maturities for these notes payable for the year ending June 30 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ -
2015	-
2016	-
2017	-
2018	-
Thereafter	15,397,200
	<u>\$ 15,397,200</u>

Interest expense related to the notes was \$154,812 for the year ended June 30, 2013.

Certain financial covenants related to the notes are required to be complied with by Educare. As of June 30, 2013, Educare was in compliance with all such covenants.

**NOTE 8 – CAPITAL LEASE**

In August 2012, Educare entered into a 65-year capital lease agreement with Bounce DC, which expires on September 6, 2077, to rent property located at 640 Anacostia Avenue NE, Washington, DC. 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 (estimated to be 40 years in the agreement), the property is being depreciated using the straight-line method over the term of the lease. The asset is capitalized and included in property and equipment in the statement of financial position at the acquisition cost of \$12,700,000. Because of the lump sum payment, there are no future payments due for the remainder of the lease. Amortization expense related to the capital lease was \$131,993 for the year ended June 30, 2013, and is included in depreciation expense on the statement of functional expense.

**NOTE 9 – RETIREMENT PLAN**

Educare has a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code, covering all full-time employees meeting certain service requirements. The Plan allows for employees to make pre-tax contributions up to the statutory limits set by the Internal Revenue Code. Employees are eligible to receive employer match contributions of 5.5% after 90 days of service. Related expenses for the year ended June 30, 2013 was \$97,462.

**EDUCARE DC  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 9 – RETIREMENT PLAN - (CONTINUED)**

As of June 30, 2013, Educare had a liability of \$91,912 included in accrued expenses on the statement of financial position, which represents the amount of employer matching contributions that were not yet remitted as of June 30, 2013.

**NOTE 10 – CONTINGENCY**

Educare receives funds through contracts and grants from the federal government which are subject to audit. Management believes that adjustments associated with findings from these audits, if any, will not have a material effect on its financial statements. As such, no provision for any adjustments has been made in the accompanying financial statements.

**NOTE 11 – RELATED-PARTY TRANSACTIONS**

Bounce DC (Bounce), a 501(c)(3) non-profit organization, which is a partnership between the Ounce of Prevention Fund (Ounce), the Buffett Early Childhood Fund (Buffett), and other national philanthropies and public/private partners from more than a dozen states across America, was established in 2003. Bounce is 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. The organization serves as an administrator of the Educare Learning Network and its nationwide schools, including Educare DC. The Presidents of Ounce and Buffett serve as the Co-Chairpersons of Educare's board of directors. During the year, Bounce provided contributions to Educare to assist in the administering of its program. These contributions totaled \$700,000 for the year ended June 30, 2013.

In September 2012, Bounce provided a short-term leverage loan to Educare in the amount of \$10,700,070 in order to qualify for a New Market Tax Credit (NMTC). Proceeds from the NMTC went to Community Urban Revitalization Enterprise IV, LLC, and USBCDE Sub-CDE 75, LLC, who in turn provided the proceeds to Educare in the form of four long-term loans detailed in Note 7. Educare used these funds, in part, to repay the leverage loan to Bounce in the form of the \$12,700,000 lease payment detailed in Note 8. Educare, as required by the agreement, also established various reserve accounts from which interest payments over the life of the notes are to be made, as detailed in Note 3.

As part of the agreement described above, Bounce also transferred \$500,000 in equipment and furniture to Educare during the year ended June 30, 2013. The amount is included in net property and equipment on the statement of financial position.

**EDUCARE DC  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 11 – RELATED-PARTY TRANSACTIONS – (CONTINUED)**

United Planning Organization CDC (UPO CDC) is a 501(c)(3) organization established to plan, coordinate, and implement human services programs for low-income residents in the District of Columbia. The President and CEO of UPO CDC serves as the Treasurer/Director of Educare. During the year ended June 30, 2013, UPO CDC provided accounting/book keeping, human resources, and grant management services to Educare. In exchange, Educare, in accordance with the Administrative Services Agreement, pays a monthly management fee to UPO CDC equal to 13.6% of total operating costs, excluding capital expenditures. During the year ended June 30, 2013, Educare paid \$425,604 to UPO CDC for these services. The amount due to UPO CDC as of June 30, 2013 was \$132,541.

In addition to the services provided above, Educare also reimburses UPO CDC for the salary of the Program Manager since she is an employee of UPO CDC, but serves as a liaison between Educare and UPO CDC. Total reimbursements made to UPO CDC during the year ended June 30, 2013 was \$70,327.

**NOTE 12 – SUBSEQUENT EVENTS**

In preparing these financial statements, management of Educare has evaluated events and transactions that occurred after June 30, 2013 for the potential recognition or disclosure in the financial statements. These events and transactions were evaluated through October 22, 2013, the date the financial statements were available to be issued.

Management did not identify any such events or transactions that would require disclosure.

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**OMB CIRCULAR A-133 AUDIT**

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# F.S. TAYLOR & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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

To the Board of Directors of  
Educare DC

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 DC (Educare), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2013.

### 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 opinion 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Educare's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*F. S. Taylor & Associates, P.C.*

October 22, 2013

# **F.S. TAYLOR & ASSOCIATES, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of  
Educare DC

### **Report on Compliance for Each Major Federal Program**

We have audited Educare's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Educare's major federal programs for the year ended June 30, 2013. 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

### ***Opinion on Each Major Federal Program***

In our opinion, Educare complied, in all material respects with the 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, 2013.

## Report on Internal Control over Compliance

Management of Educare is responsible for establishing and maintains 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 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 OMB Circular A-133, 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 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 significant deficiencies, or material weaknesses. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*J. S. Taylor & Associates, P.C.*

October 22, 2013

**EDUCARE DC  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**A. Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(s) identified? No
- Significant deficiency(s) identified that are not considered to be material weakness(es)? No

Noncompliance material to financial statements noted? No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weakness(es)? No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section 510(a))? No

**Identification of Major Programs**

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

Dollar threshold used to determine Type A programs: \$300,000

Auditee Qualified as low-risk auditee? No

**B. Findings – Financial Statements Audit**

None.

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

There were no current year findings.

EDUCARE DC  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal or Pass-Through Grantor/Program Title</u>	<u>Pass-Through Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b><i>U.S. Department of Health and Human Services (HHS)</i></b>			
<i>Passed through United Planning Organization</i>			
Head Start/Early Head Start	CACFP# V-274	93.600	\$ 1,354,500
<b><i>U.S. Department of Agriculture (USDA)</i></b>			
<i>Passed through Office of the State Superintendent of Education</i>			
Child and Adult Care Food Program	03CH0380/47	10.558	50,436
Total federal expenditures			<u>\$ 1,404,936</u>

SEE ACCOMPANYING NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**EDUCARE DC  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Background** – Incorporated in 2010 in the District of Columbia as 501(c)(3) non-profit organization, Educare DC (Educare) is an early childhood education school and community center built to serve the children and families of Ward 7.

Educare is part of the larger Educare Learning Network known as Bounce DC (Bounce), which is a partnership between the Ounce of Prevention Fund, the Buffett Early Childhood Fund, and other national philanthropies and public/private partners from more than a dozen states across America. Established in 2003, Bounce is 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.

Funding for Educare is primarily in the form of a Head Start/Early Start federal grant, as well as contributions from the Bounce Network.

**Basis of Accounting** – The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Allowability is determined according to the principles contained in the U. S. Office of Management and Budget (OMB) Circular A-122, “Cost Principles for Nonprofit Organizations”. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 2 – SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133**

The OMB Circular A-133 audit was performed for the year ended June 30, 2013. All federal awards received by Educare directly or indirectly have been included in the schedule of federal awards and are within the scope of the audit pursuant to OMB Circular A-133.

**NOTE 3 – CASH MATCHING/IN-KIND CONTRIBUTIONS**

Educare has a Head Start/Early Head Start contract which stipulates that Educare must provide non-federal matching of at least 20%. Matching funds provided by Educare as part of the contract was \$901,030 for the year ended June 30, 2013.

**EDUCARE DC  
SCHEDULE OF PRIOR-YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

Educare did not expend at least \$500,000 in federal funds during the year June 30, 2012. Therefore, no A-133 Single Audit was performed.