



**AUDIT REPORT**

**FINANCIAL AND FEDERAL AWARD  
COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED JUNE 30, 2022**

# EDUCARE OF WASHINGTON, DC

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## **FINANCIAL STATEMENTS**



**FOR THE YEAR ENDED JUNE 30, 2022  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2021**

# 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.

#### Opinion

We have audited the accompanying financial statements of Educare of Washington, DC (Educare), which comprise the statement of financial position as of June 30, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Educare as of June 30, 2022, 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.

#### Basis for Opinion

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

#### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Educare's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Educare's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Educare's ability to continue as a going concern for a reasonable period of time.

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

## **Report on Summarized Comparative Information**

We have previously audited Educare's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 22, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards on pages I-(21 - 22), 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 6, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Educare's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Educare's internal control over financial reporting and compliance.

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

December 6, 2022

**EDUCARE OF WASHINGTON, DC**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2022**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

**ASSETS**

	<u>2022</u>	<u>2021</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,845,146	\$ 4,636,739
Accounts receivable	236,294	261,496
Pledges receivable	60,000	75,000
Grants receivable	944,505	2,496,699
Prepaid expenses	<u>221,812</u>	<u>149,440</u>
Total current assets	<u>8,307,757</u>	<u>7,619,374</u>
<b>PROPERTY AND EQUIPMENT</b>		
Capital lease building	12,700,000	12,700,000
Furniture and equipment	639,004	583,890
Leasehold improvements	2,389,183	2,270,546
Other	<u>15,000</u>	<u>15,000</u>
	15,743,187	15,569,436
Less: Accumulated depreciation and amortization	<u>(2,920,923)</u>	<u>(2,378,186)</u>
Net property and equipment	<u>12,822,264</u>	<u>13,191,250</u>
<b>OTHER ASSETS</b>		
Pledges receivable, net of current portion and discount	<u>235,218</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 21,365,239</u></b>	<b><u>\$ 20,810,624</u></b>

**EDUCARE OF WASHINGTON, DC**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2022**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

**LIABILITIES AND NET ASSETS**

	<u>2022</u>	<u>2021</u>
<b>CURRENT LIABILITIES</b>		
Paycheck Protection Program note payable	\$ 145,630	\$ 16,047
Notes payable	158,234	91,733
Accounts payable and accrued liabilities	624,914	805,762
Accrued salaries and related benefits	163,604	379,291
Refundable advances	<u>28,033</u>	<u>-</u>
Total current liabilities	<u>1,120,415</u>	<u>1,292,833</u>
<b>LONG-TERM LIABILITIES</b>		
Paycheck Protection Program note payable, net of current portion	-	129,583
Notes payable, net of current portion	631,925	845,199
Deferred rent	<u>15,256</u>	<u>7,684</u>
Total long-term liabilities	<u>647,181</u>	<u>982,466</u>
Total liabilities	<u>1,767,596</u>	<u>2,275,299</u>
<b>NET ASSETS</b>		
Without donor restrictions:		
Undesignated	<u>2,766,030</u>	<u>2,397,041</u>
Board designated:		
Operating reserve	1,726,000	1,271,300
Building reserve	<u>1,385,467</u>	<u>1,233,900</u>
Total board designated	<u>3,111,467</u>	<u>2,505,200</u>
Invested in fixed assets	<u>12,822,264</u>	<u>13,191,250</u>
Total net assets without donor restrictions	18,699,761	18,093,491
With donor restrictions	<u>897,882</u>	<u>441,834</u>
Total net assets	<u>19,597,643</u>	<u>18,535,325</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 21,365,239</u></b>	<b><u>\$ 20,810,624</u></b>

## EDUCARE OF WASHINGTON, DC

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2022  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>SUPPORT AND REVENUE</b>				
Federal grants	\$ 9,483,718	\$ -	\$ 9,483,718	\$ 10,420,807
Contributions and grants	2,843,080	1,538,478	4,381,558	4,323,803
In-kind contributions	1,383,274	-	1,383,274	1,406,692
Other revenue	10,789	-	10,789	133
Net assets released from donor restrictions	<u>1,082,430</u>	<u>(1,082,430)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>14,803,291</u>	<u>456,048</u>	<u>15,259,339</u>	<u>16,151,435</u>
<b>EXPENSES</b>				
Program Services	<u>12,995,922</u>	<u>-</u>	<u>12,995,922</u>	<u>14,028,373</u>
Supporting Services:				
Management and General	914,702	-	914,702	508,431
Fundraising/Development	<u>433,170</u>	<u>-</u>	<u>433,170</u>	<u>375,997</u>
Total supporting services	<u>1,347,872</u>	<u>-</u>	<u>1,347,872</u>	<u>884,428</u>
Total expenses	<u>14,343,794</u>	<u>-</u>	<u>14,343,794</u>	<u>14,912,801</u>
Change in net assets before other item	459,497	456,048	915,545	1,238,634
<b>OTHER ITEM</b>				
Extinguishment of debt	<u>146,773</u>	<u>-</u>	<u>146,773</u>	<u>123,100</u>
Change in net assets	606,270	456,048	1,062,318	1,361,734
Net assets at beginning of year	<u>18,093,491</u>	<u>441,834</u>	<u>18,535,325</u>	<u>17,173,591</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 18,699,761</u></b>	<b><u>\$ 897,882</u></b>	<b><u>\$ 19,597,643</u></b>	<b><u>\$ 18,535,325</u></b>

## EDUCARE OF WASHINGTON, DC

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2022  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	<b>2022</b>				<b>2021</b>	
	<b>Supporting Services</b>			<b>Total Supporting Services</b>	<b>Total Expenses</b>	<b>Total Expenses</b>
	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising/ Development</b>			
Payroll expenses	\$ 6,968,475	\$ 218,193	\$ 263,059	\$ 481,252	\$ 7,449,727	\$ 6,990,920
Professional services and contracts	2,579,520	355,857	126,277	482,134	3,061,654	3,474,461
Occupancy charges	1,968,097	158,740	20,526	179,266	2,147,363	1,934,522
Child services and activities	813,457	1,297	-	1,297	814,754	794,844
Office expenses	306,762	11,793	14,677	26,470	333,232	794,515
Training	203,910	64,891	761	65,652	269,562	106,115
Travel and meetings	55,719	46,528	221	46,749	102,468	67,803
Business expenses	47,823	53,708	-	53,708	101,531	145,491
Equipment	35,773	2,230	496	2,726	38,499	545,497
Communications	16,386	1,465	7,153	8,618	25,004	58,633
<b>TOTAL</b>	<b>\$ 12,995,922</b>	<b>\$ 914,702</b>	<b>\$ 433,170</b>	<b>\$ 1,347,872</b>	<b>\$ 14,343,794</b>	<b>\$ 14,912,801</b>

See accompanying notes to financial statements.

**EDUCARE OF WASHINGTON, DC**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2022**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,062,318	\$ 1,361,734
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	542,737	384,437
Extinguishment of debt	(146,773)	(123,100)
Discount on long-term pledges receivable	4,782	-
Decrease (increase) in:		
Accounts receivable	25,202	109,186
Pledges receivable	(225,000)	172,595
Grants receivable	1,552,194	(1,900,617)
Prepaid expenses	(72,372)	(83,042)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(180,848)	422,357
Accrued salaries and related benefits	(215,687)	112,891
Refundable advances	28,033	-
Deferred rent abatement	<u>7,572</u>	<u>7,684</u>
Net cash provided by operating activities	<u>2,382,158</u>	<u>464,125</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(173,751)</u>	<u>(2,064,516)</u>
Net cash used by investing activities	<u>(173,751)</u>	<u>(2,064,516)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Paycheck Protection Program note payable	-	145,630
Proceeds from note payables	<u>-</u>	<u>936,932</u>
Net cash provided by financing activities	<u>-</u>	<u>1,082,562</u>
Net increase (decrease) in cash and cash equivalents	2,208,407	(517,829)
Cash and cash equivalents at beginning of year	<u>4,636,739</u>	<u>5,154,568</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 6,845,146</u></b>	<b><u>\$ 4,636,739</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest Paid	<b><u>\$ 22,743</u></b>	<b><u>\$ 1,389</u></b>

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**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 424 children at the Parkside campus and the new campus located in Deanwood, and 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 Start Early, 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.

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 (HHS). 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 DC's Early Head Start (infant-toddler) and Head Start (pre-kindergarten or Pre-K) programs for children ranging in age from 6 weeks to 5 years are also funded through a five-year federal grant from HHS. The Early Head Start 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. This program operates at Educare's two campuses in Parkside and Deanwood. The Head Start 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, 2022**

**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. This program operates at Educare's Parkside campus only.

Pre-Natal Program -

The Pre-Natal program, Moms 2 Be, is also funded through the five-year Head Start grant. Through this program, Educare provides Head Start comprehensive services for 24 prenatal women. Educare DC's Prenatal Program empowers mothers through the continuum of pregnancy, childbirth, and parenting an infant. The goal is to support mothers and their babies by ensuring they have access to quality healthcare, parenting and birthing classes, support and coaching from experts, and connection with other mothers.

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.

Early Educator Fellowship -

Educare launched the Early Educator Fellowship in 2020, which is a year-long, competitive entry program offering a stipend, and created to fill a critical professional gap for early educators not addressed through other initiatives. The Fellowship is designed to help early childhood educators build their social and professional capital through a cohort model with network and skill-building opportunities, and authentic experiences to exercise their voices as experts and advocates within their programs and the field. The program targets early educators from a range of provider settings who have completed or are enrolled in an Associate's degree program, and who serve mostly low-income children. The Early Educator Fellowship is funded with private funding sources.

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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

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. 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, 2021, from which the summarized information was derived.

New accounting pronouncement adopted -

During 2022, Educare adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets.

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.

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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

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.

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, 2022 totaled \$542,737, 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, 2022.

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, 2022, 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 -

Educare receives contributions, including unconditional promises to give, from many sources as well as grants from the U.S. Government, organizations and other entities. 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 grant to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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

Contributions and grants (continued) -

For contributions and grants qualifying under the contribution 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 conditions 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.

Contributions and grants qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. Most grants and awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and recognized as contributions when the revenue becomes unconditional. 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. As of June 30, 2022, Educare had approximately \$2,403,000 in unrecognized conditional awards.

In-kind contributions -

In-kind contributions consist of pro-bono professional services and donated rent. In-kind contributions are recorded at their fair market value as of the date of the contribution. In-kind contributions are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Educare.

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.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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

New accounting pronouncement not yet adopted -

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosure of key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non-public entities for fiscal years beginning after December 15, 2021. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

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 standard on its accompanying financial statements.

**2. CAPITAL LEASE OBLIGATION**

In August 2012, Educare entered into a 65-year capital lease agreement with Bounce D.C., a related party, 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. On April 5, 2022, the capital lease was officially transferred from Bounce D.C. to Educare. The terms of the lease were not changed.

As of June 30, 2022, the cost and related accumulated amortization of the leased asset were \$12,700,000 and \$1,905,008, respectively. Amortization of assets held under capital leases is included with depreciation and amortization expense.

**3. LINE OF CREDIT**

Educare has a \$500,000 bank line of credit which matures February 1, 2023. Amounts borrowed under this agreement bear interest at a variable rate floor of 3.1%. The variable rate at June 30, 2022 was 4.6%. As of June 30, 2022, there was no outstanding balance on the line of credit. The line is secured by Educare's assets.

**4. NOTES PAYABLE**

On February 2, 2021, Educare entered into a promissory note with Truist Bank in the amount of \$570,000, bearing annual fixed interest at 3.99% with a maturity date of February 1, 2028. The note is collateralized by Educare's assets and is subject to covenants.

On May 13, 2021, Educare entered into a forgivable promissory note with Reinvestment Fund, Inc. in the amount of \$366,932. Upon satisfaction of the loan forgiveness conditions stated in the loan agreement, a portion of the original principal balance of the loan up to 25% will be forgiven on an annual basis until the loan maturity date of March 13, 2025.

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**4. NOTES PAYABLE (Continued)**

During the year ended June 30, 2022, Educare met the annual conditions stated in the loan agreement and received notification that \$146,773 was forgiven which is greater than 25% of the original principal balance of the loan due to programmatic decisions by Reinvestment Fund, Inc. Accordingly, Educare recorded revenue from extinguishment of debt during the year ended June 30, 2022 in the Statement of Activities and Change in Net Assets. The note is collateralized by a security interest agreement on all furniture, fixtures and equipment purchased with the loan funds and is subject to covenants.

Principal payments for both loans are due as follows:

**Year Ending June 30.**

2023	\$	158,234
2024		296,312
2025		249,744
2026		<u>85,869</u>
	<b>\$</b>	<b><u>790,159</u></b>

For the year ended June 30, 2022, interest expense was \$22,743.

**5. PAYCHECK PROTECTION PROGRAM NOTE PAYABLE**

On March 24, 2021, Educare received loan proceeds in the amount of \$145,630 under the Paycheck Protection Program. The promissory note bears interest at a rate of 1.00% per year and calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments until ten months after completion of the 24 week spending period. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the SBA in whole or in part. Educare expended and tracked the PPP funds for purposes outlined in the CARES Act guidance and met all conditions set forth for full forgiveness. On July 26, 2022, Educare received notification the total amount of the PPP funds were forgiven by the SBA. Accordingly, Educare will record revenue from debt extinguishments in the subsequent year.

**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 changing community needs.

In order to plan and manage for future needs, the Board of Directors have designated net assets for the following purposes:

Operating Reserve	\$	1,726,000
Building Reserve		<u>1,385,467</u>
<b>BOARD DESIGNATED NET ASSETS</b>	<b>\$</b>	<b><u>3,111,467</u></b>

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**6. BOARD DESIGNATED NET ASSETS (Continued)**

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. LEASE COMMITMENTS**

Educare leases licensed child care space under a fifty five-month agreement, which originated in November 2020. The lease offers renewals up to a total of 20 years. Base rent is \$23,333 per month, increasing by a factor of 2% per year.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Statement of Financial Position.

The following is a schedule of the future minimum lease payments:

<u>Year Ending June 30,</u>		
2023	\$	291,312
2024		297,138
2025		<u>303,081</u>
	<b>\$</b>	<b><u>891,531</u></b>

Rent expense for the year ended June 30, 2022 under this lease agreement was \$293,172 and it is included in occupancy charges on the statement of Functional expenses. The deferred rent liability was \$15,256.

**8. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following at June 30, 2022:

Workforce Support	\$	33,922
Diversity Equity and Inclusion (DEI)		25,000
Covid Response		88,960
Premium Pay		200,000
Time Restricted		<u>550,000</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>\$</b>	<b><u>897,882</u></b>

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**8. NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

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	\$ 60,000
Covid Response	37,744
Early Educator Fellowship	102,166
Family Engagement	30,000
Comprehensive Health	50,000
Workforce Support	66,078
PRA	275,000
Premium Pay	52,011
Red Nose	84,431
Passage of Time	<u>325,000</u>
<b>NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 1,082,430</u></b>

**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	\$ 6,845,146
Accounts receivable	236,294
Pledges receivable	60,000
Grants receivable	<u>944,505</u>
Subtotal financial assets available within one year	8,085,945
Less: Donor restricted funds	(587,882)
Less: Board designated funds	<u>(3,111,467)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 4,386,596</u></b>

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. In addition, Educare has a line of credit agreement (as further discussed in Note 3) which allows for additional available borrowings up to \$500,000.

**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, 2022 totaled \$123,049 and are included in payroll expenses in the Statement of Functional Expenses.

**EDUCARE OF WASHINGTON, DC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

**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 2022. 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, 2022, Educare was the beneficiary of donated goods and services which allowed Educare to provide greater resources toward various programs. In-kind contributions are reflected in the financial statements at their fair market value on the date the good and services were provided. There were no donor-imposed restrictions associated with the in-kind contributions during the year ended June 30, 2022.

To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended June 30, 2022.

Donated Accounting Services	\$ 14,100
Donated HR Services	24,000
Donated Legal Fees	21,000
Donated Childcare Services	686,878
Donated Rent	<u>637,296</u>
<b>TOTAL</b>	<b><u>\$ 1,383,274</u></b>

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

Program Services	\$ 1,345,174
Management and General	<u>38,100</u>
<b>TOTAL</b>	<b><u>\$ 1,383,274</u></b>

**13. SUBSEQUENT EVENTS**

In preparing these financial statements, Educare has evaluated events and transactions for potential recognition or disclosure through December 6, 2022, the date the financial statements were issued.

**SUPPLEMENTAL INFORMATION**

## EDUCARE OF WASHINGTON, DC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed- Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>U.S. Department of Health and Human Services (HHS)</b>				
<b>CCDF Cluster - The Child Care and Development Fund</b>				
DC Office of the State Superintendent of Education - Child Care and Development Block Grant	93.575	N/A	\$ -	\$ 289,897
<b>Head Start Cluster</b>				
Head Start/Early Head Start	93.600	N/A	354,782	5,979,043
COVID-19 - Head Start	93.600	N/A	-	252,789
COVID-19 - Head Start	93.600	N/A	-	85,700
Early Head Start	93.600	N/A	-	2,734,599
<b>Sub-total Head Start Cluster</b>			<u>354,782</u>	<u>9,052,131</u>
<b>Total U.S. Department of Health and Human Services (HHS)</b>			<u>354,782</u>	<u>9,342,028</u>
<b>U.S. Department of Agriculture (USDA)</b>				
DC Office of the State Superintendent of Education - Child and Adult Care Food Program	10.558	10087	-	141,690
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 354,782</u>	<u>\$ 9,483,718</u>

EDUCARE OF WASHINGTON, DC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2022

**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, 2022. 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, 2022

**Section I - Summary of Auditor's Results**

**Financial Statements**

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

2). Internal control over financial reporting:

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

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

**Federal Awards**

4). Internal control over major federal programs:

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

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

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

7). Identification of major federal programs:

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

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

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

**EDUCARE OF WASHINGTON, DC**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2022**

**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.

**Section IV - Prior Year Findings with Current Year Status**

There were no reportable findings.



CPAs & ADVISORS

**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  
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, 2022, and the related notes to the financial statements, which collectively comprise Educare's basic financial statements, and have issued our report thereon dated December 6, 2022.

**Report on 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.

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

## **Report on 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 6, 2022



## CPAs & ADVISORS

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

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

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

We have audited Educare of Washington, DC's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Educare of Washington, DC's major federal programs for the year ended June 30, 2022. Educare's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2022.

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

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

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

##### *Responsibilities of Management for Compliance*

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

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## ***Auditor's Responsibilities for the Audit of Compliance***

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

### **Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

*Gelman Rosenberg & Friedman*

December 6, 2022