

EDUCARE OF WEST DUPAGE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
(Including Reports Required by
OMB's Uniform Guidance)**

For the Year Ended June 30, 2020

Educare of West DuPage

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Independent Auditor's Report

To the Board of Directors
Educare of West DuPage
West Chicago, IL

We have audited the accompanying financial statements of Educare of West DuPage (a non-profit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 of 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 of West DuPage as of June 30, 2020, and the changes 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.

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, 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*, 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 February 24, 2021, on our consideration of Educare of West DuPage'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 of West DuPage's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Educare of West DuPage's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 18, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Desmond & Ahern, Ltd

February 24, 2021
Chicago, IL

EDUCARE OF WEST DUPAGE
STATEMENT OF FINANCIAL POSITION
As of June 30, 2020 (with comparative totals for 2019)

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,831,632	\$ 1,979,513
Government receivables	952,798	358,854
Contributions receivable due within one year	256,855	200,000
Other receivables	840	1,654
Program service fees, net of allowance	46,965	50,666
Prepaid expenses	13,595	12,895
Total current assets	<u>3,102,685</u>	<u>2,603,582</u>
Property and Equipment		
Building and improvements	7,943,849	7,287,643
Furniture and equipment	279,218	252,553
Website design	8,138	8,138
Construction in progress	-	571,101
	<u>8,231,205</u>	<u>8,119,435</u>
Less accumulated depreciation and amortization	<u>(2,598,403)</u>	<u>(2,219,524)</u>
Net property and equipment	<u>5,632,802</u>	<u>5,899,911</u>
Other Assets		
Long-term contributions receivable - net of discount	190,543	381,186
Total Assets	<u>\$ 8,926,030</u>	<u>\$ 8,884,679</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 3,649	\$ 41,759
Accrued payroll and related benefits	275,850	211,087
Government advances	114,066	323,772
Refundable Advance- PPP Loan	34,735	-
Total current liabilities	<u>428,300</u>	<u>576,618</u>
Net Assets		
Without donor restrictions	7,908,803	7,663,630
With donor restrictions	588,927	644,431
Total net assets	<u>8,497,730</u>	<u>8,308,061</u>
Total Liabilities and Net Assets	<u>\$ 8,926,030</u>	<u>\$ 8,884,679</u>

See independent auditor's report and notes to financial statements.

EDUCARE OF WEST DUPAGE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020 (with comparative totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Total 2019
<u>Public Support and Revenue</u>				
Government grants	\$ 4,147,230	\$ -	\$ 4,147,230	\$ 3,803,055
Contributions - other	115,590	153,313	268,903	77,020
Program service fees	52,896	-	52,896	111,286
Tuition	21,344.00	-	21,344	42,307
Donated services	62,362	-	62,362	54,238
Donated facilities	57,441	-	57,441	64,144
Special Events				
Contributions and special events revenue	17,889	-	17,889	32,491
Less costs of direct benefits to donors	-	-	-	(7,464)
Net revenues from special events	17,889	-	17,889	25,027
Interest income	18,720	-	18,720	20,641
Net assets released from restrictions - satisfaction of time restrictions	190,643	(190,643)	-	-
satisfaction of program restrictions	18,174	(18,174)	-	-
Total Public Support and Revenue	4,702,289	(55,504)	4,646,785	4,197,718
<u>Expenses</u>				
Program services	3,925,615	-	3,925,615	3,607,184
Management and general	519,783	-	519,783	393,676
Fundraising	11,718	-	11,718	106,109
Total Expenses	4,457,116	-	4,457,116	4,106,969
Change in Net Assets	245,173	(55,504)	189,669	90,749
Net assets, beginning of year	7,663,630	644,431	8,308,061	8,217,312
Net assets, end of year	<u>\$ 7,908,803</u>	<u>\$ 588,927</u>	<u>\$ 8,497,730</u>	<u>\$ 8,308,061</u>

See independent auditor's report and notes to financial statements.

EDUCARE OF WEST DUPAGE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020 (with comparative totals for 2019)

	Program Services	Management and General	Fundraising	Total 2020	Total 2019
<u>Functional Expenses</u>					
Salaries and wages	\$ 2,419,592	\$ 207,701	\$ 2,154	\$ 2,629,447	\$ 2,423,546
Fringe benefits and related taxes	499,749	44,769	576	545,094	504,280
	<u>2,919,341</u>	<u>252,470</u>	<u>2,730</u>	<u>3,174,541</u>	<u>2,927,826</u>
Professional fees	152,015	163,342	1,381	316,738	323,341
Staff development and training	89,319	4,776	-	94,095	65,374
Custodial fees	62,362	-	-	62,362	54,238
Parent services	5,878	272	-	6,150	5,349
Occupancy	77,058	5,558	9	82,625	64,144
Telephone and internet	13,225	704	10	13,939	14,642
Insurance	22,610	3,897	-	26,507	18,997
Repairs and maintenance	8,859	2,660	-	11,519	3,187
Equipment	39,526	10,835	-	50,361	30,046
Meal related costs	121,117	-	-	121,117	170,620
Classroom and educational supplies	33,553	-	754	34,307	55,601
Supplies - other	14,425	1,409	15	15,849	24,046
Printing and postage	343	157	229	729	742
Bank fees	-	1,764	-	1,764	1,767
Bad debt	-	43,000	-	43,000	-
Depreciation and amortization	350,700	27,810	369	378,879	315,165
Miscellaneous	15,284	1,129	6,221	22,634	31,884
Total Expenses	<u><u>\$ 3,925,615</u></u>	<u><u>\$ 519,783</u></u>	<u><u>\$ 11,718</u></u>	<u><u>\$ 4,457,116</u></u>	<u><u>\$ 4,106,969</u></u>

See independent auditor's report and notes to financial statements.

**EDUCARE OF WEST DUPAGE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020 (with comparative totals for 2019)**

	<u>2020</u>	<u>2019</u>
<u>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities</u>		
Change in net assets	\$ 189,669	\$ 90,749
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	378,879	315,165
(Increase) decrease in		
Government receivables	(593,944)	311,845
Contributions receivable	133,788	200,000
Other receivables	814	(1,654)
Program service fees receivable, net	3,701	(38,149)
Prepaid expense	(700)	(693)
Increase (decrease) in		
Accounts payable	(38,110)	19,297
Accrued payroll and vacation	64,763	3,183
Government advances	(209,706)	323,772
Net cash (used in) provided by operating activities	<u>(70,846)</u>	<u>1,223,515</u>
<u>Cash Flows used in Investing Activities</u>		
Purchase of furniture and equipment	<u>(111,770)</u>	<u>(579,457)</u>
Net cash used in investing activities	<u>(111,770)</u>	<u>(579,457)</u>
<u>Cash Flows from Financing Activities</u>		
Proceeds from paycheck protection loan	<u>34,735</u>	<u>-</u>
Net cash provided by financing activities	34,735	-
Net increase (decrease) in cash and cash equivalents	(147,881)	644,058
Cash and cash equivalents, beginning of year	<u>1,979,513</u>	<u>1,335,455</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,831,632</u></u>	<u><u>\$ 1,979,513</u></u>

See independent auditor's report and notes to financial statements.

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Organization

Educare of West DuPage (“Educare” or the “Organization”) is an Illinois not-for-profit corporation organized to increase access to quality, comprehensive childcare and early learning experiences for children from birth through the age of five years and their families and increase school readiness in children from low-income backgrounds.

Tax-Exempt Status

Educare was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). Educare qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of Educare and the nature in which it operates is described above. Educare continues to operate in compliance with its tax-exempt purpose. Educare’s annual information and income tax returns filed with the federal and state governments are subject to examination generally for three years after they are filed.

Educare has adopted the requirements for accounting for uncertain tax positions and management has determined that Educare was not required to record a liability related to uncertain tax positions as of June 30, 2020.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and accordingly, reflect all significant accounts receivable, payable, and other liabilities in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation

As required by the generally accepted accounting principles for Not-for-Profit accounting, the Organization is required to report information regarding its financial position and activities according to two classes:

Without donor restrictions – Net assets that are not subject to donor-imposed restrictions. Such gifts include gifts without restrictions, including an investment account designated by the Board to function as restricted and restricted gifts whose donor-imposed restrictions were met during the fiscal year.

With donor restrictions – Net assets subject to donor-imposed restrictions which will be met either by actions of the Organization or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Restrictions that have been met on net assets with donor restrictions are reported as net assets released from restrictions.

**EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

With donor restrictions (cont.)

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Organization, including gifts and pledges wherein donors stipulate that the corpus of the gift is to be held in perpetuity and that only the income be made available for programs. As of June 30, 2020, there are no donor-imposed restrictions to be maintained permanently.

Use of Estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts. The accounts may, at times, exceed the federally insured limit of \$250,000. For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments, if any, purchased with an original maturity of three months or less to be cash equivalents. No taxes or interest were paid during the year ended June 30, 2020.

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The Organization provides for depreciation and amortization on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

Building and improvements	25 years
Furniture and equipment	3 - 10 years
Website design	5 years

Contributions Receivables

Unconditional promises to give are recognized as revenue in the period the pledge is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Educare uses the specific allowance method to determine uncollectible promises to give. Any allowance is based on previous experience and management's analysis of specific promises made. There was no allowance for uncollectible promises to give at June 30, 2020 as management believes all contributions will be collected.

**EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Program Service Fee Receivable and Allowance

Program service fee receivable consists of the parent fees. An allowance is calculated based on the age of the receivables and the likelihood of collection, which amounted to \$51,290 at June 30, 2020. Uncollectible accounts are written off in the year they are deemed uncollectible.

Support and Revenue

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. It is the Organization’s policy to immediately liquidate donations of common stock.

The Organization reports gifts of land, buildings, and equipment as without donor restriction support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. During the year ending June 30, 2020 no such gifts of land, buildings, or equipment were received.

The Organization recognizes contract revenue at an amount that reflects consideration to which the Organization expects to be entitled to in exchange for transferring goods or services to a customer. There is currently one type of contract that the Organization is engaged, which is based on performance reporting. Due to the nature and varying performance obligations of these contracts, the timing and methods of recognizing revenue from these contracts will vary. All contracts recognize revenue in accordance with ASU No. 2014-09 and prior year revenues have been retrospectively adjusted. There was no contract revenue recorded in 2020 for any performance obligations met in the prior year.

For performance reporting contracts, a customer pays the agreed upon amounts after the completion and submission of specified deliverables in the contract. For these contracts, the Organization will allocate the transaction price of the contract to the specific performance obligations based on the contract. The Organization recognizes revenue when the performance obligations are met and delivered to the customer. The Organization had no contracts during 2020 that were performance reporting contracts. There are no contract assets or liabilities.

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. These expenditures are subject to audit and acceptance by the granting organization and, as a result of such audit, adjustments could be required. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization had \$114,066 in refundable advances from one government agency recorded at June 30, 2020.

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended June 30, 2020, Educare received \$62,362 of donated custodial and other services meeting the above criteria.

In-Kind Contributions

In addition to receiving cash contributions, Educare receives in-kind contributions from various donors. It is the policy of Educare to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase donations by a like amount. For the year ended June 30, 2020, Educare received in-kind donations for facility use valued at \$57,441.

Certain Vulnerabilities and Concentrations

The Organization's total revenue for the year ended June 30, 2020 amounted to \$4,646,785. Of this amount, approximately 89% of its funding was from four government sources. Furthermore, 100% of the government receivable is due from three different agencies. Of the pledge's receivable, 100% is due from three donor. Educare continues to pursue additional sources of funding.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class, which does not provide sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such prior year information should be read in conjunction with the Foundation's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, office and occupancy, which are allocated on a square-footage basis, as well as salaries and benefits, which are

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

allocated on the basis of estimates of time and effort. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Subsequent Events

Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Organization has evaluated subsequent events through February 24, 2021, which is the date the statements were available to be issued. No subsequent events have been identified that are required to be disclosed. See additional disclosures shown on Note 6.

Accounting Standards Update

During the fiscal 2020 year the Organization has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*, which requires that an entity evaluate whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. Management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognitions, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization's financial statements reflect the application of ASC 606 guidance beginning in 2020. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact Educare's reported historical revenue.

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 2 – Financial Assets and Liquidity Resources

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets at June 30, 2020	
Cash and cash equivalents	\$ 1,831,632
Government receivables	952,798
Contributions and other receivables - short term	<u>355,950</u>
Total financial assets and liquidity resources	3,140,380
Less allowance for doubtful accounts	(51,290)
Less net assets with donor restrictions	<u>(588,927)</u>
Total financial assets available within one year	<u>\$ 2,500,163</u>

The Organization provides various contractual program services from which it receives city, state and federal reimbursement as well as significant unrestricted and restricted gift pledges and contributions from individual, corporation and foundation donors; and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general operating purposes. The organization manages its liquidity and reserves following three guiding principles: 1) operating within a prudent range of financial soundness and stability; 2) maintaining adequate liquid assets to fund near-term operating needs; and 3) maintaining sufficient reserves to provide reasonable assurance that programming is continued, and obligations will be adequately discharged in the future. During the year ended June 30, 2020 the level of liquidity and reserves was managed within the policy requirements.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 3 – Contributions Receivable

As of June 30, 2020, contributions receivable are as follows:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Due within one year	\$ 256,855	\$ -	\$ 256,855
Due in 1 - 5 years	<u>-</u>	<u>200,000</u>	<u>200,000</u>
	256,855	200,000	456,855
Less discount at rate of 1.61%	<u>-</u>	<u>(9,457)</u>	<u>(9,457)</u>
	<u>\$ 256,855</u>	<u>\$ 190,543</u>	<u>\$ 447,398</u>

**EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 3 – Contributions Receivable (cont.)

As of June 30, 2020, contributions receivable over one year were discounted based upon payment terms using a discount factor of 1.61%, which reflects the ten-year U.S. Treasury rate as of the date of donation.

Note 4 – Retirement Plan

The Organization maintains a 401(k) defined contribution plan for the benefit of substantially all of its employees, which allows for both employee and employer contributions. Contributions to the plan are at the discretion of the Board of Directors and are based on a percent of each eligible employee's total compensation up to 3%. The Board of Directors authorized \$70,018 in employer contributions for the year ending June 30, 2020.

Note 5 – Commitments

Pursuant to a lease agreement entered into during September 2010 (the "Lease") between West Chicago Elementary School District No. 33 (the "District") and Educare, the District leased to Educare land, commonly known as 851 Pearl Road, West Chicago, IL, 60185, and facilities to be built by Educare, at its cost, on said land for the total cost of \$100 (said land and the facilities collectively hereinafter referred to as the "Property"). Educare completed the construction of the facilities during 2012. Pursuant to the Lease, the District provides all utilities and maintenance, other than major improvements in excess of \$10,000. The Lease is for twenty-five years, ending September, 2035, as long as Educare uses and occupies the facilities as an early childhood education and care center and for no other purposes, unless approved by the District. During all relevant times, Educare has and continues to occupy the facilities as an early childhood education and care center.

During 2017 Educare entered into a 5 year lease agreement to rent a Church for a second location for an early learning childcare center. The lease was to begin January 2018 with monthly rent of \$2,350 every month for five years with three 5-year options to extend the term. Due to leasehold improvements needed, the lease was put on hold until the completion of the renovations. As of June 30, 2020, the project was complete and the Organization started paying rent as of December 2019.

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 6 –Subsequent Events

This Subsequent Event relates to the Lease referenced in the first paragraph of Note 5 – Commitments, above. In September 2019, the District, Educare, and The Gustafson Family Charitable Foundation, a major funder of Educare, entered into an “Agreement to Operate the Educare of West DuPage” (the “Operating Agreement”), which superseded and replaced a certain “2008 Agreement to Establish and Operate Educare”. Pursuant to Section 4 of the Operating Agreement, the District agreed to convey to Educare the entirety of the Property by Warranty Deed on or about September 8, 2020, or such other date as may be mutually agreed, but in no event later than September 30, 2020. The effect of such conveyance would be to terminate the Lease by operation of law, and, accordingly, from and after the date of such conveyance, the District would not be responsible for the utilities and maintenance of the Property, but rather, Educare would become solely responsible for same. Prior to September 30, 2020, the District conveyed to Educare, by Warranty Deed dated September 9, 2020, all rights, title, and interest in and to the Property, and such Warranty Deed was filed with the DuPage Recorder of Deeds, and such Warranty Deed was accepted for filing and recorded by the DuPage County Illinois Recorder of Deeds on October 23, 2020. Since such conveyance, Educare has undertaken sole responsibility for the utilities and maintenance of the Property, and, consequently, its expenses will increase accordingly.

Note 7 –Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30, 2020:

Gustafon Family Foundation Challenge Grant	\$ 41,110
Red Nose Day Grant	55,419
COVID-19 Relief	101,855
Future periods	<u>390,543</u>
	<u>\$ 588,927</u>

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 8 – Paycheck Protection Loan

In May 2020, the Organization received loan proceeds in the amount of approximately \$34,735 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Organization has been using the proceeds for purposes consistent with the PPP and elected to follow ASC 958-605 and record the loan as a refundable advance where once forgiveness conditions are substantially met or explicitly waived, the entity would reduce the refundable advance and record a contribution for the amount forgiven. As of June 30, 2020, the \$34,735 is recorded as a refundable advance until forgiveness conditions are substantially met or explicitly waived. The Organization expects the entire loan to be forgiven.

Note 9 – Contingencies

The Organization has received significant financial assistance from federal, state, and local agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements or contracts and may be subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability.

The Organization’s operations could be significantly impacted by the novel coronavirus pandemic after the Organization fiscal year end of June 30, 2020. Management is maintaining operations to the extent possible however some operations will be affected. It is not possible to reasonably estimate the effect of this crisis on the Organization or whether it would be material to the Organization's financial statements at June 30, 2020.

**Reports Required by
OMB's Uniform Guidance**

EDUCARE OF WEST DUPAGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Contract Number	Passed Through to Subrecipients	Disbursements or Expenditures
U.S. Department of Health and Human Services				
Head Start	93.600	N/A	\$ - (1)	\$ 1,834,796
Total Child Care and Development Fund			-	1,834,796
U.S. Department of Agriculture				
Passed through Illinois State Board of Education				
Child and Adult Care Food Program	10.558	19022073P00	-	112,491
Total U.S. Department of Agriculture			-	112,491
Total Expenditures of Federal Awards			\$ -	\$ 1,947,287

(1) Major Program

See accompanying notes to schedule of federal awards.

EDUCARE OF WEST DUPAGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2020

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “SEFA”) includes the Federal award activity of Educare of West DuPage under programs of the federal government for the year June 30, 2020. The information in this schedule is presented in accordance with the requirements 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)*. Because this schedule presents only a selected portion of the operations of Educare of West DuPage, it is not intended to and does not present the financial position, changes in net assets or cash flows of Educare of West DuPage.

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 *2 CFR Part 230 – Cost Principles for Non-Profit Organizations (OMB Circular A-122)*, wherein certain types or expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Sub-Recipients

Educare of West DuPage did not provide any Federal awards to sub-recipients during the year ended June 30, 2020.

Note 4 – Other Matters

Amount of non-cash assistance	None
Amount of insurance	None
Amount of loans	None
Amount of loan guarantees	None



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**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 of West DuPage
West Chicago, IL

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 West DuPage (Educare), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 24, 2021.

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 of West DuPage's internal control. Accordingly, we do not express an opinion on the effectiveness of Educare of West DuPage'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 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educare's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2020-002.

Educare of West DuPage's Response to Findings

Educare of West DuPage's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Educare of West DuPage's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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 Educare's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Educare's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Desmond & Ahern, Ltd

February 24, 2021
Chicago, IL



Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's Report on Compliance for Each
Major Federal Program and on Internal Control over
Compliance Required by Uniform Guidance**

To the Board of Directors
Educare of West DuPage
West Chicago, IL

Report on Compliance for Each Major Federal Program

We have audited Educare of West DuPage's compliance with the types of compliance requirements described in the *United States Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Educare of West DuPage's major federal programs for the year ended June 30, 2020. Educare of West DuPage'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 of West DuPage's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Educare of West DuPage'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 of West DuPage's compliance.

Opinion on Each of the Major Federal Programs

In our opinion, Educare of West DuPage complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

Educare of West DuPage's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Educare of West DuPage's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Educare of West DuPage is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Educare of West DuPage's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Educare of West DuPage's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Desmond & Ahern, Ltd

February 24, 2021
Chicago, IL

**EDUCARE OF WEST DUPAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2020**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X no
- Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness identified? yes X no
- Significant deficiencies identified that are not considered to be material weakness? yes X no

Type of auditor’s report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516 (a)?? X yes no

Certification of Major Programs

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

Dollar threshold used to distinguish between type A and type B Programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**EDUCARE OF WEST DUPAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2020**

Section II – Financial Statement Findings

2020-001 Preparation of Generally Accepted Accounting Principles (GAAP) Financial Statements

Condition: We noted an absence of monitoring and knowledge in the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles (GAAP).

Criteria: This absence of fiscal monitoring controls and knowledge does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner.

Cause: This material weakness is due to a combination of the accounting department needing additional training and a lack of monitoring due to COVID-19 which may have identified the additional journal entries required to present GAAP financial statements.

Effect: Material adjusting entries were necessary to accounts including revenue, receivables, payables and expenses to present the financial statement and related footnotes in accordance with GAAP for the year ending June 30, 2020.

Auditor's Recommendation We recommend that someone independent of the report's preparation (who is knowledgeable of GAAP, including specific not for profit pronouncements) review the statements to ensure all transactions have been properly recorded.

Grantee Response: The accounting department will be attending conferences to receive additional training, as well as correspond with a consultant to review accounts to ensure Generally Accepted Accounting Principles (GAAP) are being followed.

Section III – Federal Award Findings and Questioned Costs

2020-002 Allowable Costs/Cost Principles

Criteria: Reports reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to awards, in accordance with *Cost Principles for Non-Profit Organizations (2 CFR Part 230.8)*. The reports must reflect an after-the-fact determination of the actual activity of each employee.

**EDUCARE OF WEST DUPAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2020**

Section III – Federal Award Findings and Questioned Costs (cont.)

Condition: The Organization provided time records that account for the number of hours worked by the selected employees and the departments employees are charged to, however, details for the time worked in each individual program were not representative of actual time recorded per activity.

Cause: The Organization asserts that time records are consistently maintained to support the allocation of staff time to different functions. However, the Organization experienced significant turnover within the accounting department during the fiscal year and as a result was unable to locate documentation as to measurable criteria used to allocate all employees' time. The Organization subsequently prepared a time study to ascertain that compensation costs charged to awards were reasonable and allocable.

Effect: Inadequate documentation could result in unallowable costs being charged to awards.

Questioned Costs: None

Recommendation: We recommend that quarterly recaps of the time sheets be done and that the time analysis be compared to the actual percent being allocated. If necessary, the projected allocation percentages, including full time equivalents, should be changed to reflect the actual time spent as required under 2 CFR 230. Also, the previous quarter should also be adjusted if the revised percentages would cause the financials to be materially misstated. We further recommend that all employees receive additional training on filling out time sheets and that supervisors receive written procedures on reviewing the time sheets before approving to ensure that they are properly completed.

Grantee Response: A time study will be conducted on a quarterly basis to better determine where employees' time is being spent. The first time study was to be initiated in February 2020 however due to COVID-19 this was delayed. The management team is also looking into a different payroll vendor that will help in recording staff time more efficiently and accurately.

Section IV – Federal Award Findings and Questioned Costs – Prior Year

2019-001 Preparation of Generally Accepted Accounting Principles (GAAP) Financial Statements

Condition: We noted an absence of monitoring and knowledge in the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles (GAAP).

**EDUCARE OF WEST DUPAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2020**

Section IV – Federal Award Findings and Questioned Costs – Prior Year (cont.)

Criteria: This absence of fiscal monitoring controls and knowledge does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in a timely manner.

Cause: This material weakness is due to a combination of the accounting department needing additional training and a lack of monitoring which may have identified the additional journal entries required to present GAAP financial statements.

Effect: Material adjusting entries were necessary to accounts including fixed assets, and expenses to present the financial statement and related footnotes in accordance with GAAP for the year ending June 30, 2020.

Auditor's Recommendation We recommend that someone independent of the report's preparation (who is knowledgeable of GAAP, including specific not for profit pronouncements) review the statements to ensure all transactions have been properly recorded.

Current Status: See finding 2020-001

2019-002 Allowable Costs/Cost Principles

Criteria: Reports reflecting the distribution of activity of each employee must be maintained for all staff members whose compensation is charged, in whole or in part, directly to awards, in accordance with *Cost Principles for Non-Profit Organizations (2 CFR Part 230.8)*. The reports must reflect an after-the-fact determination of the actual activity of each employee.

Condition: The Organization provided time records that account for the number of hours worked by the selected employees and the departments employees are charged to, however, details for the time worked in each individual program were not representative of actual time recorded per activity.

Cause: The Organization asserts that time records are consistently maintained to support the allocation of staff time to different functions. However, the Organization experienced significant turnover within the accounting department during the fiscal year and as a result was unable to locate documentation as to measurable criteria used to allocate all employees' time. The Organization subsequently prepared a time study to ascertain that compensation costs charged to awards were reasonable and allocable.

Effect: Inadequate documentation could result in unallowable costs being charged to awards.

**EDUCARE OF WEST DUPAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2020**

Section III – Federal Award Findings and Questioned Costs (cont.)

Questioned Costs: None

Recommendation: We recommend that quarterly recaps of the time sheets be done and that the time analysis be compared to the actual percent being allocated. If necessary, the projected allocation percentages, including full time equivalents, should be changed to reflect the actual time spent as required under 2 CFR 230. Also, the previous quarter should also be adjusted if the revised percentages would cause the financials to be materially misstated. We further recommend that all employees receive additional training on filling out time sheets and that supervisors receive written procedures on reviewing the time sheets before approving to ensure that they are properly completed.

Current Status: See finding 2020-002