

Horizon Community Learning Center, Inc.

Financial Statements,
Supplementary Information,
and Single Audit Reports

Year Ended June 30, 2021

CONTENTS

Independent Auditors' Report.....	1-2
Financial Statements:	
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-15
Supplementary Information:	
Schedule of Expenditures of Federal Awards.....	16
Notes to the Schedule of Expenditures of Federal Awards.....	17
Single Audit Reports:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-19
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	20-21
Schedule of Findings and Questioned Costs.....	22-23
Corrective Action Plan	



Independent Auditors' Report

To the Board of Directors of
Horizon Community Learning Center, Inc.
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Horizon Community Learning Center, Inc. (HCLC, a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, cash flows, and functional expenses 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 HCLC as of June 30, 2021, 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

Other 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, 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 November 29, 2021 on our consideration of HCLC'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 HCLC's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

November 29, 2021

Horizon Community Learning Center, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2021

ASSETS

Current assets:	
Cash and cash equivalents	\$ 4,534,085
Restricted cash, current portion	591,620
Accounts receivable	1,564
Due from federal government	114,073
Prepaid expenses	<u>36,095</u>
Total current assets	<u>5,277,437</u>
Noncurrent assets:	
Land and site improvements	882,912
Furniture, fixtures, and equipment	1,866,427
Buildings and improvements	18,109,321
Less accumulated depreciation	<u>(10,523,172)</u>
Property and equipment, net	10,335,488
Restricted cash, noncurrent portion	<u>3,653,379</u>
Total noncurrent assets	<u>13,988,867</u>
Total assets	<u><u>\$ 19,266,304</u></u>

LIABILITIES AND NET ASSETS (DEFICIT)

Current liabilities:	
Accounts payable	\$ 113,570
Accrued payroll and related	460,506
Deferred revenue	107,938
Due to student groups	101,235
Accrued interest	493,796
Current maturities of long-term debt	<u>980,000</u>
Total current liabilities	2,257,045
Long-term debt, net of current maturities	<u>21,621,954</u>
Total liabilities	23,878,999
Net assets (deficit):	
Without donor restrictions	(5,062,219)
With donor restrictions	<u>449,524</u>
Total net assets (deficit)	<u>(4,612,695)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 19,266,304</u></u>

The accompanying notes are an integral part of these statements.

Horizon Community Learning Center, Inc.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:			
State aid	\$ 11,017,543	\$ 988,316	\$ 12,005,859
Grants-federal	884,561		884,561
Paycheck protection program	1,611,565		1,611,565
Charges for services	562,830		562,830
Rentals	31,234		31,234
Contributions	65,282		65,282
Interest income	672		672
Miscellaneous revenues	54,251		54,251
Net assets released from restrictions	<u>1,173,327</u>	<u>(1,173,327)</u>	
Total revenue and support	15,401,265	(185,011)	15,216,254
Expenses:			
Program services:			
Instruction	8,748,657		8,748,657
Instructional support	<u>875,317</u>		<u>875,317</u>
Total program services	9,623,974		9,623,974
Supporting services:			
Management and general	1,624,006		1,624,006
Operation and maintenance	<u>1,747,545</u>		<u>1,747,545</u>
Total supporting services	3,371,551		3,371,551
Total expenses	<u>12,995,525</u>		<u>12,995,525</u>
Change in net assets	2,405,740	(185,011)	2,220,729
Net assets (deficit) , beginning of year	<u>(7,467,959)</u>	<u>634,535</u>	<u>(6,833,424)</u>
Net assets (deficit) , end of year	<u>\$ (5,062,219)</u>	<u>\$ 449,524</u>	<u>\$ (4,612,695)</u>

The accompanying notes are an integral part of these statements.

Horizon Community Learning Center, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Instruction</u>	<u>Instruction Support</u>	<u>Management and General</u>	<u>Operation and Maintenance</u>	
Expenses:					
Salaries	\$ 5,339,736	\$ 484,266	\$ 1,105,087	\$ 378,374	\$ 7,307,463
Benefits	1,136,311	103,025	229,107	81,319	1,549,762
Payroll taxes	392,415	33,241	79,759	25,740	531,155
Food	5,867				5,867
Professional development			4,062		4,062
Supplies	264,852	27,090	23,185	125,012	440,139
Communications	21,068		13,120	24,392	58,580
Purchased services	144,071	219,707	97,949	244,911	706,638
Fieldtrips and travel	7,722	4,988	1,782	731	15,223
Utilities				208,920	208,920
Dues and fees	26,391		16,409	2,807	45,607
Scholarships				12,000	12,000
Rentals	20,021			35,917	55,938
Insurance				85,116	85,116
Repairs and maintenance				156,788	156,788
Advertising	1,524		10,857		12,381
Interest	728,824			182,206	911,030
Amortization	26,983			6,745	33,728
Depreciation	595,470			148,865	744,335
Miscellaneous	37,402	3,000	42,689	27,702	110,793
Total expenses	<u>\$ 8,748,657</u>	<u>\$ 875,317</u>	<u>\$ 1,624,006</u>	<u>\$ 1,747,545</u>	<u>\$ 12,995,525</u>

The accompanying notes are an integral part of these statements.

Horizon Community Learning Center, Inc.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2021

Cash flows from operating activities:	
Change in net assets	\$ 2,220,729
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	744,335
Amortization of loan issuance cost	33,728
Amortization of bond premium	(84,537)
Forgiveness of Paycheck Protection Program loan	(1,611,565)
Changes in:	
Accounts receivable	51,973
Due from state government	105,069
Due from federal government	170,498
Prepaid expenses	5,355
Accounts payable	(6,427)
Accrued payroll and related	(72,264)
Deferred revenue	105,638
Due to student groups	(20,155)
Accrued interest	<u>(38,400)</u>
Net cash provided by operating activities	1,603,977
Cash flows from investing activities:	
Purchases of property and equipment	<u>(490,255)</u>
Net cash used in investing activities	(490,255)
Cash flows from financing activities:	
Principal payments on long-term debt	<u>(955,000)</u>
Net cash used in financing activities	<u>(955,000)</u>
Net increase in cash and cash equivalents	
	158,722
Cash and cash equivalents, beginning of year	<u>8,620,362</u>
Cash and cash equivalents, end of year	<u><u>\$ 8,779,084</u></u>
<u>Cash and cash equivalents:</u>	
Cash and cash equivalents	\$ 4,534,085
Restricted cash, current portion	591,620
Restricted cash, noncurrent portion	<u>3,653,379</u>
Total cash and cash equivalents	<u><u>\$ 8,779,084</u></u>
<u>Supplemental disclosure:</u>	
Cash paid during the year for interest	\$ 911,030

The accompanying notes are an integral part of these statements.

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Horizon Community Learning Center, Inc. (HCLC) was formed in 1996 to operate a public school under the laws of the state of Arizona applicable to charter schools. HCLC derives program funding primarily from state educational aid and government grants and public donations. HCLC operates under two charter contracts with the Arizona State Board for Charter Schools. One charter is for grades K-6 while the other charter is for grades 7-12. The charter for K-6 expires in June 2029. The charter for 7-12 expires in July 2035.

The significant accounting policies of HCLC follow:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. HCLC is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the restricted stipulated purpose for which the resource was restricted has been fulfilled, or both.

Charges for Services: Charges for services consists of food service sales to students for the preparation and serving of regular and incidental meals and snacks in connection with school functions, fees for full-day kindergarten, preschool and child care services, and various athletic fees. Revenue and the expense related to these services are recognized at the time the services are performed.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: For the purposes of the statement of cash flows, HCLC considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Concentration of Credit Risk: HCLC maintains cash balances at high quality financial institutions. At times, such cash may be in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. HCLC has not experienced any losses related in such accounts and believes it is not exposed to any significant credit risk.

Receivables: Accounts receivable, amounts due from state government, and amounts due from federal government are stated at the amount management expects to collect from outstanding balances. HCLC does not expect to experience a loss due to the nature of the payees, therefore, no allowance for uncollectibility has been established.

Property and Equipment: Property and equipment with a unit cost greater than \$300 are capitalized at historical cost, or estimated historical cost if actual historical cost is not available. Assets donated to HCLC are recorded at their estimated fair value at the time received. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The estimated lives used in determining depreciation are:

Land improvements	40 years
Buildings and improvements	40 years
Site improvements	10 - 40 years
Furniture, fixtures, and equipment	3 -10 years

Deferred Revenue: Income from food service charges is deferred and recognized over the periods to which the charges relate. Grants received in advance are deferred and recognized to the extent eligible expenses have been incurred.

Contributions: HCLC follows the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. 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. Donor-restricted contributions and conditional grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Income Taxes: HCLC is exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

Functional Allocation of Expenses: The costs of program and supporting services have been summarized on a functional basis in the statements of activities and statement of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs that can be identified with a specific function are charged directly according to their natural expenditure classification. Other costs are allocated on a square-footage proportional basis includes repairs, utilities, and portion of insurance costs. Expenditures allocated on a proportional use of time and effort are salaries and wages, payroll taxes, and professional services.

Financial Impact of COVID-19: HCLC's operations have been, and continue to be affected by the recent and ongoing outbreak of the Coronavirus disease (COVID-19), which was declared a pandemic by the World Health Organization in March 2020. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and the related financial impact. However, the related financial impact and duration cannot be reasonably estimated at this time.

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 2 - LIQUIDITY AND AVAILABILITY

HCLC monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. HCLC has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

Financial assets included in current assets:	
Cash and cash equivalents	\$ 4,534,085
Restricted cash, current portion	591,620
Accounts receivable	1,564
Due from federal government	<u>114,073</u>
Total financial assets included in current assets	5,241,342
Less amounts unavailable for general expenditure within one year:	
Net assets with donor restrictions	449,524
Restricted cash, current portion	<u>591,620</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,200,198</u>

In addition to financial assets available to meet general expenditures over the year, HCLC operates with a balanced budget and anticipates covering its general expenditures by collecting revenue from the state of Arizona, contributions, grants, and other revenues.

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 3 - RESTRICTED CASH

Restricted cash at June 30, 2021, is as follows:

Cash on deposit with trustee:	
Bond funds	\$ 1,655,048
Debt service reserve funds	1,998,331
Expense funds	12,270
Revenue funds	119
Repair and replacement funds	<u>123,750</u>
Total for cash on deposit with trustee	3,789,518
Cash held for others:	
Student activity bank account	101,235
Cash held for Classroom Site Funds	<u>354,246</u>
Total restricted cash	4,244,999
Less: Current portion of restricted cash	<u>(934,307)</u>
Restricted cash, noncurrent portion	<u>\$ 3,310,692</u>

Cash on deposit with trustee consists of required deposits associated with the long-term debt (see Note 4). The debt service reserve funds are kept in trust in the event HCLC is not able to make debt service payments on the IDA loans, and any unused amounts would be used to extinguish the debt at the maturity date of the bonds. The tax and interest escrow funds and the expense funds are to be used to reimburse HCLC for certain expenses related to its activities. The accounts are held by BOK Financial, as trustee.

As of June 30, 2021, HCLC has restricted Classroom Site cash in the amount \$354,246. Classroom Site monies are restricted by state statute for teacher base salary increases and employment-related expense, performance-based teacher compensation increases and other projects defined as class size reduction, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums.

HCLC has student activities bank accounts which account for monies raised by students to finance student clubs and organizations, but are held by the School as an agent. At June 30, 2021, the student activity cash balance was \$101,235.

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 4 - LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2021:

Education Revenue Bonds (Series 2016 Bonds) were issued by the Industrial Development Authority of the County of Maricopa, Arizona, (IDA) in the aggregate principal amount of \$25,370,000. The proceeds of the bonds were loaned to HCLC pursuant to an Indenture of Trust dated April 1, 2016. The loan is payable to the IDA in twice-yearly installments through July 2035, at interest rates varying from 2.625% to 5.00%. The bonds are secured by land and buildings, and through assignment of State Equalization revenue. The interest rate at June 30, 2021 was 2.625%.	\$ 21,895,000
Add: Unamortized bond premium	1,200,281
Less: Unamortized debt issuance costs	(493,327)
Less: Current portion	<u>(980,000)</u>
Total	<u>\$ 21,621,954</u>

The aggregate future minimum payments on long-term debt as of June 30, 2021, were as follows:

Year ending June 30:

2022	\$ 980,000
2023	1,005,000
2024	1,045,000
2025	1,085,000
2026	1,130,000
Thereafter	<u>16,650,000</u>
Total	<u>\$ 21,895,000</u>

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 5 - ECONOMIC DEPENDENCY

For the year ended June 30, 2021, approximately 85% of HCLC's revenue was derived from the State of Arizona through payments of State Equalization, Classroom Site Funds (Proposition 301), Instructional Improvement Funds, other State aid, federal grants passed through the State of Arizona, and State of Arizona grants. Nonfederal funds that are paid from the State of Arizona are subject to funding approval from the state legislature. Changes in state funding levels for charter schools could have a significant impact on HCLC's revenues.

NOTE 6 - PAYCHECK PROTECTION PROGRAM

On May 1, 2020, HCLC was approved for a \$1,611,565 loan under the Paycheck Protection Program (PPP) created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1% and matures in 2 years, but originally payments are not required to begin for the earlier of 10 months after the end of HCLC's loan forgiveness covered period (either 8 or 24 weeks after the loan was funded) or when HCLC applies for loan forgiveness. HCLC is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain conditions. The loan is collateralized and is fully guaranteed by the Federal government. On February 10, 2021, the SBA forgave 100% of HCLC's PPP loan.

As of June 30, 2021, HCLC had expended \$1,611,565 of the loan proceeds for qualified payroll and related benefits and therefore recognized that amount as revenue in the Statement of Activities.

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 7 - CONTINGENT LIABILITIES

Compliance: HCLC's compliance with certain laws and regulations is subject to review by the State of Arizona, Office of the Auditor General and Department of Education. Such reviews could result in adjustments to or withholding of State Equalization assistance. Management is not aware of any such adjustments or withholdings as of June 30, 2021.

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions released from restrictions for the year ending June 30, 2021 consisted of the following:

Classroom Site Funds	\$ 945,857
Instructional Improvement Funds	61,995
Results based funding	<u>165,475</u>
Total	<u>\$ 1,173,327</u>

Net assets with donor restrictions consisted of the following at June 30, 2021:

Classroom Site Funds	\$ 354,246
Capital campaign	21,195
Other charitable contributions	<u>74,083</u>
Total	<u>\$ 449,524</u>

Horizon Community Learning Center, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 9 - PENSION PLAN

Plan Description: Permanent full-time and certain part-time employees of HCLC participate in a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Funding Policy: The Arizona State Legislature establishes and may amend active plan members' and HCLC's contribution rates. For the year ended June 30, 2021, statute required active ASRS members to contribute at the actuarially determined rate of 12.22 percent (12.04 percent for retirement and 0.18 percent for long-term disability) of the members' annual covered payroll, and statute required HCLC to contribute at the actuarially determined rate of 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 percent for long-term disability) of the active members' annual covered payroll. HCLC's contributions to ASRS for the year ended June 30, 2021 was \$847,699, which was equal to the required contributions.

NOTE 10 - CONDITIONAL CONTRIBUTIONS

Horizon Community Learning Center, Inc. received conditional contributions during the fiscal year ending June 30, 2021. Conditional contributions are recorded when the donor-imposed conditions are substantially met. Certain conditions are required to be met by HCLC in the subsequent years in order to earn and receive these amounts. As of June 30, 2021, amounts awarded but not yet earned totaled \$1,558,948. While management believes that HCLC will meet these conditions, they had not been met as of the year ended June 30, 2021. Accordingly, no amount has been recorded for these conditional contributions as a receivable in the financial statements.

NOTE 11 - SUBSEQUENT EVENTS

HCLC has evaluated subsequent events through November 29, 2021, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Horizon Community Learning Center, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2021

Federal Assistance Listings Number	Federal Program Name	Cluster Title	Pass-Through Grantor	Pass-Through Grantor's Number	Expenditures	Passed Through to Subrecipients
Department of the Treasury						
21.019	COVID-19 Coronavirus Relief Fund	N/A	State of Arizona Office of the Governor	ERMT-21-2273, ERMT-21-2274	\$ 390,842	\$
U.S. Department of Education						
84.027A	COVID-19 IDEA Consolidated - Entitlement IDEA Basic Federal	Special Education Cluster (IDEA)	Arizona Department of Education	21FESCBG-110719-09A, 21FESCBG-110720-09A	291,655	
84.425D	COVID-19 Elementary and Secondary School Emergency Relief (ESSER) Fund.	N/A	Arizona Department of Education	21FEIINT-110719-01A, 21FEIINT-110720-01A	<u>162,472</u>	
Total Department of Education					<u>454,127</u>	
Total Expenditures of Federal Awards					<u>\$ 844,969</u>	<u>\$</u>

The accompanying notes are an integral part of this schedule.

Horizon Community Learning Center, Inc.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2021

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of Horizon Community Learning Center, Inc. (the HCLC) for the year ended June 30, 2021. 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).

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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 3 - FEDERAL ASSISTANCE LISTINGS NUMBER

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the 2021 *Federal Assistance Listings*. When no Federal Assistance Listings numbers had been assigned to a program, the two digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two digit federal agency identifier and the word "unknown" were used.

NOTE 4 - INDIRECT COST RATE

The HCLC did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

NOTE 5 - SUBRECIPIENTS

The HCLC did not pass any funds onto subrecipients during the year ended June 30, 2021.

SINGLE AUDIT REPORTS



**Independent Auditors' 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
Horizon Community Learning Center, Inc.
Phoenix, Arizona

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 Horizon Community Learning Center, Inc. (HCLC, a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HCLC'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HCLC's internal control. Accordingly, we do not express an opinion on the effectiveness of HCLC'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 HCLC'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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions as 2021-001, that we consider to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HCLC'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*.

The HCLC's Response to Finding

HCLC's response to the findings identified in our audit are described in the accompanying schedule of findings and questions. HCLC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Fester & Chapman, PLLC

November 29, 2021



Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
Horizon Community Learning Center, Inc.
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

We have audited Horizon Community Learning Center, Inc. (HCLC)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of HCLC's major federal programs for the year ended June 30, 2021. HCLC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of HCLC'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 HCLC'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 HCLC's compliance.

Opinion on Each Major Federal Program

In our opinion, HCLC 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, 2021.

Report on Internal Control Over Compliance

Management of HCLC 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 HCLC'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 HCLC'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.

Fester & Chapman, PLLC

November 29, 2021

Horizon Community Learning Center, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2021

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report issued:	Unmodified		
	<u>Yes</u>	<u>No</u>	
Internal control over financial reporting:			
Material weaknesses identified?	<u>X</u>	<u> </u>	
Significant deficiencies identified?	<u> </u>	<u>X</u>	(None reported)
Noncompliance material to the financial statements noted?	<u> </u>	<u>X</u>	

Federal Awards

Internal control over major programs:			
Material weakness identified?	<u> </u>	<u>X</u>	
Significant deficiencies identified?	<u> </u>	<u>X</u>	(None reported)
Type of auditors' report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	<u> </u>	<u>X</u>	

Identification of major programs:

Federal Assistance Listings Number	Name of Federal Program or Cluster
21.019	COVID-19 Coronavirus Relief Fund

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

Auditee qualified as low-risk auditee?	<u> </u>	<u>X</u>
--	---------------	----------

Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR §200.511(b)?	<u> </u>	<u>X</u>
--	---------------	----------

Horizon Community Learning Center, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2021

Section II - Financial Statement Findings

2021-001 Fixed Assets

- Criteria: Controls over fixed assets should be strengthened in order to help ensure that fixed assets are properly stated in the financial statements.
- Condition: Audit entries were necessary to correctly state HCLC's fixed assets, accumulated depreciation and depreciation expenses.
- Cause: HCLC did not have adequate policies and procedures in place to ensure the fixed assets listing is accurate and the depreciation is calculated properly. In addition, fixed assets and depreciation expense amounts in the general ledger were not regularly reconciled to the fixed asset listing.
- Effect: Prior to posting audit adjustment, HCLC's fixed assets and depreciation expenses were materially misstated.
- Recommendation: Management should ensure that controls are in place to maintain accuracy and completeness of the fixed assets listing.

Section III - Federal Award Findings and Questioned Costs

None noted.



16233 SOUTH 48TH ST. PHOENIX, AZ 85048
HORIZONHONORS.ORG // 480.659.3000

CORRECTIVE ACTION PLAN

November 29, 2021

We have prepared the following corrective action plan as required by the standards applicable to financial audits contained in Government Auditing Standards and by 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). Specifically, for each finding we are providing you with the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

2021-001 Fixed Assets

Recommendation: Management should ensure that controls are in place to maintain accuracy and completeness of the fixed assets listing.

Action Taken: HCLC will regularly reconcile the fixed asset listing to the general ledger and perform analytical review on the fixed asset balances.

Contact person: Kara Lashar, Director of Finance

Completion date: December 2021