

Higher Horizons Day Care Center, Inc.

Falls Church, Virginia

Financial Statements and
Supplementary Information

Year Ended June 30, 2021



Higher Horizons Day Care Center, Inc.

Financial Statements and Supplementary Information
Year Ended June 30, 2021

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Independent Auditor's Report

Board of Directors
Higher Horizons Day Care Center, Inc.
Falls Church, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Higher Horizons Day Care Center, Inc., which comprise the statement of financial position as of June 30, 2021, 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; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Higher Horizons Day Care Center, Inc. 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.

Other Matters

Supplementary Information

Our audit was performed 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the 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. 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 August 16, 2022, on our consideration of Higher Horizons Day Care Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Higher Horizons Day Care Center Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Higher Horizons Day Care Center, Inc.'s internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

August 16, 2022
Madison, Wisconsin

Higher Horizons Day Care Center, Inc.

Statement of Financial Position

June 30, 2021

<i>Assets</i>	
<hr/>	
Current assets:	
Cash	\$ 176,480
Grants receivable	431,212
Prepaid expenses	19,890
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Total current assets	627,582
Property and equipment, net	75,196
<hr/>	
TOTAL ASSETS	\$ 702,778
<hr/> <hr/>	
<i>Liabilities and Net Assets</i>	
<hr/>	
Current liabilities:	
Accounts payable	\$ 266,341
Accrued payroll and related expenses	433,906
<hr/>	
Total current liabilities	700,247
<hr/>	
Net assets without donor restrictions	2,531
<hr/>	
TOTAL LIABILITIES AND NET ASSETS	\$ 702,778
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Higher Horizons Day Care Center, Inc.

Statement of Activities

Year Ended June 30, 2021

Revenue:	
Federal grants and contracts	\$ 3,473,436
Local grants and contracts	1,453,335
Other income	8,108
In-kind	22,734
<hr/>	
Total revenue	4,957,613
<hr/>	
Expenses:	
Program services:	
Head Start	1,056,993
Early Head Start	551,851
Early Head Start - 7 Corners	1,352,798
Day Care	1,293,025
USDA	57,156
<hr/>	
Total program services	4,311,823
<hr/>	
Management and general	707,613
<hr/>	
Total expenses	5,019,436
<hr/>	
Change in net assets without donor restrictions	(61,823)
<hr/>	
Net assets without donor restrictions - Beginning of year	64,354
<hr/>	
Net assets without donor restrictions - End of year	\$ 2,531

Higher Horizons Day Care Center, Inc.

Statement of Functional Expenses

Year Ended June 30, 2021

	Program Services						Management & General	Total
	Head Start	Early Head Start	Early Head Start 7 Corners	USDA	Day Care	Total		
Personnel expenses								
Salaries	\$ 643,163	\$ 315,395	\$ 688,032	\$ 0	\$ 820,441	\$ 2,467,031	\$ 548,483	\$ 3,015,514
Fringes	169,447	76,300	174,125	0	214,302	634,174	112,531	746,705
Total personnel expenses	<u>812,610</u>	<u>391,695</u>	<u>862,157</u>	<u>0</u>	<u>1,034,743</u>	<u>3,101,205</u>	<u>661,014</u>	<u>3,762,219</u>
Other expenses								
Rent	0	0	141,105	0	0	141,105	0	141,105
Telephone	9158	7036	14,392	0	13736	44,322	0	44,322
Building insurance/maintenance	39407	21648	53,703	670	25,833	141,261	0	141,261
Vehicle operation and maintenance	0	0	2,848	0	0	2,848	0	2,848
Field trips	0	0	1,125	0	0	1,125	0	1,125
Travel	0	0	200	0	0	200	0	200
Food	415	46	676	50,847	621	52,605	0	52,605
Supplies	139,180	72,938	124,323	3,320	134,516	474,277	166	474,443
Consultants (MHS and other)	58,450	34,516	117,683	2,319	57,005	269,973	1,717	271,690
Parent activities	0	0	111	0	0	111	0	111
Contractors (payroll and accounting)	1,026	499	1,074	0	1,202	3,801	23,744	27,545
Subscriptions	1,601	1,019	1,461	0	1,684	5,765	0	5,765
Training	12,326	10,603	15,154	0	13,934	52,017	0	52,017
Professional fees (audit and legal)	2,552	1,508	2,204	0	2,436	8,700	17,500	26,200
Other program expense (special event, literacy, transition)	108	44	65	0	72	289	0	289
Other general expense	5,973	4,281	7,178	0	7,243	24,675	608	25,283
Depreciation	7,154	-	27,437	0	0	34,591	2,864	37,455
In-kind	167,510	66,306	162,415	0	0	396,231	0	396,231
Total other expenses	<u>444,860</u>	<u>220,444</u>	<u>673,154</u>	<u>57,156</u>	<u>258,282</u>	<u>1,653,896</u>	<u>46,599</u>	<u>1,700,495</u>
Total expenses before GAAP adjustments	1,257,470	612,139	1,535,311	57,156	1,293,025	4,755,101	707,613	5,462,714
GAAP Adjustments	(200,477)	(60,288)	(182,513)	0	0	(443,278)	0	(443,278)
Total Expenses	<u>\$ 1,056,993</u>	<u>\$ 551,851</u>	<u>\$ 1,352,798</u>	<u>\$ 57,156</u>	<u>\$ 1,293,025</u>	<u>\$ 4,311,823</u>	<u>\$ 707,613</u>	<u>\$ 5,019,436</u>

See Independent Auditor's Report.

Higher Horizons Day Care Center, Inc.

Statement of Cash Flows

Year Ended June 30, 2021

Increase (decrease) in cash	
Cash flows from operating activities:	
Change in net assets	(\$ 61,823)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	37,455
Changes in operating assets and liabilities:	
Grants receivable	(99,604)
Prepaid expenses	(96)
Accounts payable	135,069
Accrued payroll and related expenses	75,602
Refundable advances	(6,117)
Net cash provided by operating activities	80,486
Cash flows from investing activities:	
Purchase of property and equipment	(69,783)
Net cash used in investing activities	(69,783)
Change in cash	10,703
Cash - Beginning of year	165,777
Cash - End of year	\$ 176,480

Higher Horizons Day Care Center, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Higher Horizons Day Care Center, Inc. (the “Organization”), a nonprofit organization formed in Falls Church, Virginia in 1963, provides quality early childhood development and family services for low-income families with children. The Organization receives 67% of its funding from a grant for Head Start, Early Head Start, and Day Care from Fairfax County through Virginia’s Office for Children (OFC) and 31% of its funding from an Early Head Start grant from the U.S. Department of Health and Human Services.

Basis of Presentation

All financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Classification of Net Assets

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States. These principles state that net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations or where donor-imposed stipulations are met in the year of the contribution.

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. Other explicit donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources must be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Currently the Organization does not have any net assets with donor restrictions.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. The Organization capitalizes property and equipment with a cost greater than \$5,000 and a useful life of more than one year. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Higher Horizons Day Care Center, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

Property and equipment purchased with grant funds are owned by the Organization while used in the programs for which they were purchased or in other future authorized programs. However, the various funding sources have a reversionary interest in the property and equipment purchased with grant funds. Its disposition, as well as the ownership of any proceeds therefrom, is subject to funding source regulations. Property and equipment purchased with grant funds are normally restricted by the funding source for use in specific programs operated by the Organization. The grant equipment net of depreciation was \$75,196 at June 30, 2021.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is also exempt from the tax statutes of the Commonwealth of Virginia.

The Organization is required to assess whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The Organization has determined there are no amounts to record as assets or liabilities related to uncertain tax positions.

In-Kind Contributions

The Organization has recorded in-kind contributions for supplies and professional services in the statement of activities in accordance with accounting principles generally accepted in the United States. These principles require that only contributions of services received that create or enhance a nonfinancial asset or require specialized skill by the individual possessing those skills and would typically need to be purchased if not provided by donation be recorded. These requirements are different than the in-kind requirements of several of the Organization's grant awards. The Organization received contributions of nonprofessional volunteers with a value of \$373,497 for its Head Start programs, which are not recorded in the statement of activities.

Revenue Recognition

Contributions, including promises to give, are considered conditional or unconditional, depending on the nature and existence of any donor or grantor conditions. A contribution or promise to give contains a donor or grantor condition when both of the following are present:

- An explicit identifying of a barrier, that is more than trivial, that must be overcome before the revenue can be earned and recognized
- An implicit right of return of assets transferred or a right of release of a donor or grantor's obligation to transfer assets promised, if the condition is not met

Conditional contributions are recognized when the barrier(s) to entitlement are overcome. Unconditional contributions are recognized as revenue when received.

Higher Horizons Day Care Center, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Unconditional contributions or conditional contributions in which the conditions have been substantially met or explicitly waived by the donor are recorded as support with or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Grants are considered contributions and are recognized as revenue when the conditions of the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

Advertising

Advertising costs are expensed when incurred.

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. Directly identifiable expenses are charged to programs and supporting services. Certain costs have been allocated among the programs and supporting services benefited using various allocation methods depending on the type of cost. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Upcoming Accounting Pronouncements

In 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting on leasing transactions. ASU No. 2016-02 will require lessees to recognize right of use assets and lease obligations for operating and finance leases under terms greater than 12 months. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. ASU No. 2016-02 must be applied modified retrospectively. On June 3, 2020, FASB issued ASU No. 2020-05, Leases (Topic 842) that extended the effective date for certain entities to annual periods beginning after December 15, 2021. The Organization is currently evaluating the impact of the provisions of ASU Topic 842.

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed NonFinancial Assets (Topic 958). The amendments in this update will require entities to present contributed nonfinancial assets as a separate line item in the statement in the statement of activities, expand disclosures on the various contributed nonfinancial assets recognized, including disaggregated category types, the valuation techniques and inputs used to arrive at fair value, and the policy for either monetizing or utilizing contributed nonfinancial assets. The amendments in this update are effective for annual financial statements issued for years beginning after June 15, 2021. The Organization is currently evaluating the impact this standard will have on its financial statements.

Higher Horizons Day Care Center, Inc.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent events have been evaluated through August 16, 2022, which is the date the financial statements were available to be issued.

Note 2: Concentration of Credit Risk

The Organization maintains cash balances at a bank. Balances in the bank account are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times during the year, balances in this account may exceed the insurance limits. Management believes the financial institution has a strong credit rating and the credit risk related to the deposits is minimal.

Note 3: Grants Receivable

Grants receivable represent amounts due from funding sources and consist of the following at June 30, 2021:

Fairfax County	\$ 235,864
Department of Health and Human Services	180,984
Department of Agriculture	14,364
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Total grants receivable	\$ 431,212

Note 4: Property and Equipment

A summary of property and equipment at June 30, 2021, is as follows:

Vehicle	\$ 25,115
Equipment	279,852
Leasehold improvements	255,795
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	560,762
Accumulated depreciation	(485,566)
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Total	\$ 75,196

Note 5: Retirement Plan

The Organization has a defined contribution retirement plan that covers substantially all full-time employees who have completed six months of service. The plan operates under section 403(b) of the Internal Revenue Code and uses Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF) retirement annuities to provide benefits. The Organization makes a contribution to the plan based upon a percentage of eligible employees' salaries. The retirement plan expense was \$56,013 for the year ending June 30, 2021, and is included with personnel fringe benefits on the statement of functional expenses.

Higher Horizons Day Care Center, Inc.

Notes to Financial Statements

Note 6: Operating Leases

The Organization leases a facility for program operations, office space and a copier under operating leases expiring through January 2026. Rental expense was \$158,496 for the year ended June 30, 2021.

Future minimum lease payments on long term leases beyond 2021 are as follows:

2022	\$ 100,621
2023	99,894
2024	102,886
2025	105,974
2026	62,888
<u>Total</u>	<u>\$ 472,263</u>

Note 7: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, are comprised of the following for the Organization as of June 30, 2021:

Cash	\$ 176,480
<u>Grants receivable</u>	<u>431,212</u>
Subtotal financial assets	607,692
<u>Less: current liabilities</u>	<u>(461,262)</u>
<u>Total financial assets available</u>	<u>\$ 146,430</u>

The Organization does not have a formal liquidity policy but maintains financial assets in cash. The Organization can rely on a lower cash balance as it is primarily funded with cost reimbursement grants. Under cost reimbursement grants, once expenses are incurred, an organization can request reimbursement from the funding source.

Note 8: Grant Awards

At June 30, 2021, the Organization had commitments under various grants of approximately \$937,000. These commitments are not recognized in the accompanying financial statements as receivables and revenue as they are conditional awards.

Note 9: Business Conditions

Beginning in March 2020, the United States economy began suffering adverse effects from the COVID-19 Pandemic (COVID-19). The Organization has received additional funding to assist with operating in a COVID-19 environment and to provide additional assistance to program participants. The Organization has not suffered material adverse impacts to operations from COVID-19 and management believes it is taking appropriate action to mitigate the risks and uncertainties of COVID-19. The future impact of COVID-19 on the Organization cannot be reasonably estimated at this time.

Supplementary Information

Higher Horizons Day Care Center, Inc.

Schedule of Expenditures of Federal Awards Year Ended June 30, 2021

<u>Federal Grantor/Program Title</u>	<u>AL Number</u>	<u>Funding Source/ Pass-Through Entity</u>	<u>Expenditures</u>
DEPARTMENT OF AGRICULTURE			
Child & Adult Care Food Program #58362	10.558	U.S. Department of Agriculture	<u>\$ 24,353</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Head Start Cluster			
Head Start	93.600	Fairfax County Office for Children	1,782,909
COVID-19 Head Start	93.600	Fairfax County Office for Children	93,971
Early Head Start #03CH011365-02	93.600	U.S. Department of Health and Human Services	787,205
Early Head Start COVID-19 #03CH011365-01-C3	93.600	U.S. Department of Health and Human Services	30,253
Early Head Start #03CH011365-01	93.600	U.S. Department of Health and Human Services	<u>704,745</u>
		Subtotal AL #93.600	<u>3,399,083</u>
DEPARTMENT OF TREASURY			
Sustainability Grant - Coronavirus Relief Funds	21.019	Fairfax County through Department of Neighborhood and Community Services	<u>50,000</u>
		TOTAL FEDERAL PROGRAMS	<u><u>\$ 3,473,436</u></u>

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the Federal grant activity of Higher Horizons Day Care Center, Inc. under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Higher Horizons Day Care Center, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Higher Horizons Day Care Center, Inc.

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. Pass-through entity identifying numbers are presented where available.

Note 3 - 10% De minimis Rate

Higher Horizons Day Care Center, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 - Sub-Recipients

Higher Horizons Day Care Center, Inc. does not have any subrecipients and therefore has not incurred subrecipient expenditures during the year ended June 30, 2021.

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*

Board of Directors
Higher Horizons Day Care Center, Inc.
Falls Church, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Higher Horizons Day Care Center, Inc., which comprise the statement of financial position as of June 30, 2021, 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 August 16, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Higher Horizons Day Care Center, Inc.'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 Higher Horizons Day Care Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Higher Horizons Day Care Center, Inc.'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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

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

Wipfli LLP

Wipfli LLP

August 16, 2022

Madison, Wisconsin

Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Higher Horizons Day Care Center, Inc.
Falls Church, Virginia

Report on Compliance for the Major Federal Program

We have audited Higher Horizons Day Care Center, Inc.’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on Higher Horizons Day Care Center, Inc.’s major federal program for the year ended June 30, 2021. Higher Horizons Day Care Center, Inc.’s major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for Higher Horizons Day Care Center, Inc.’s major federal program 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; 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 Higher Horizons Day Care Center, Inc.’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 the major federal program. However, our audit does not provide a legal determination on Higher Horizons Day Care Center, Inc.’s compliance.

Opinion on the Major Federal Program

In our opinion, Higher Horizons Day Care Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

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 2021-001. Our opinion on the major program is not modified with respect to these matters.

Higher Horizons Day Care Center, Inc.'s responses to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Higher Horizons Day Care Center, Inc.'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 Higher Horizons Day Care Center, Inc. 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 Higher Horizons Day Care Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Higher Horizons Day Care Center, Inc.'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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

Higher Horizons Day Care Center, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Higher Horizons Day Care Center, Inc.'s response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Wipfli LLP

Wipfli LLP

August 16, 2022
Madison, Wisconsin

Higher Horizons Day Care Center, Inc.

Schedule of Federal Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over the major federal program:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
Type of auditor's report issued on compliance for the major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)]?	No
Identification of major federal program:	
<u>Name of Federal Major Program or Cluster</u>	<u>AL No.</u>
Head Start Cluster	93.600
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None.

Higher Horizons Day Care Center, Inc.

Schedule of Federal Findings and Questioned Costs

Section III - Federal Award Findings and Questioned Costs

Finding 2021-001: Reporting

Department of Health and Human Services - CFDA #93.600

Head Start #03CH011365-01

Department of Health and
Human Services

01/01/2020 – 12/31/2020

Questioned Costs: \$0

Condition

During our audit, Wipfli LLP noted that Higher Horizons Day Care Center, Inc. could not provide the required SF-429 and SF-429A reports for the period January 1, 2020 – December 31, 2020, for the 5920B Summers Ln renovated property. The form that was provided was not fully completed, nor signed and certified by an authorizing official.

Criteria

Per the compliance supplement for AL #93.600 – Head Start Cluster, Reporting is required to be tested. This includes testing of Special Reporting, Form *SF-429 – Real Property Status Report and SF-429-A General Reporting (OMB No. 4040-0016)*. These forms are filed annually based up the end of the budget period. The annual SF-429 is required for all grantees and must indicate whether the grantee has reportable real property. If so, a separate SF-429-A must be completed for each parcel of real property reported and accompany the annual SF-429.

Cause

Due to the impact of Covid-19 on Higher Horizons Day Care Center, Inc. operations, the report appears to have been partially prepared, and not signed and certified by an authorizing official. The Organization contacted an official at Region III who confirmed that he could not see the report in the system.

Effect

Due to the failure to file the completed report on a timely basis, Higher Horizons Day Care Center, Inc. is not in compliance with program requirements for reporting. This is deemed to be a non-material non-compliance and significant deficiency in internal controls over compliance.

Recommendation

We recommend Higher Horizons Day Care Center, Inc. prepare required reports, have the Executive Director review, and approve, and file online by the due date.

View of Responsible Officials

We agree with the recommendation and have begun implementing the recommendation.

Section IV – Summary Schedule of Prior Year Findings

None.