



Certified Public Accountants  
and Financial Advisors

**Highlands Community Charter  
School**

Charter School #1674

Financial Statements

June 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Highlands Community Charter School  
Sacramento, California

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

We have audited the accompanying financial statements of Highlands Community Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the fiscal 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 *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 Highlands Community Charter School as of June 30, 2016, and the changes in its net assets and its cash flows for the fiscal 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 supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, on our consideration of Highlands Community Charter School'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 Highlands Community Charter School's internal control over financial reporting and compliance.

**SQUAR MILNER LLP**

San Diego, California  
December 14, 2016

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2016**

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**ASSETS**

Current assets:

Cash	\$ 178,464
Accounts receivable	1,362,595
Total current assets	<u>1,541,059</u>

Fixed assets, net	<u>79,118</u>
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<b>TOTAL ASSETS</b>	<b><u><u>\$ 1,620,177</u></u></b>
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**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable	\$ 111,435
Accrued expenses	133,290
Due to factor	<u>694,415</u>

Total current liabilities	<u>939,140</u>
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Total liabilities	939,140
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Net assets :

Temporarily restricted	16,132
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Unrestricted	<u>664,905</u>
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Total net assets	<u>681,037</u>
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<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 1,620,177</u></u></b>
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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Revenue limit sources:			
State apportionments	\$ 3,567,304	\$ -	\$3,567,304
Education protection account	81,022	-	81,022
In-lieu of property taxes	461,822	-	461,822
State revenues	423,636	16,132	439,768
Local revenues:			
Miscellaneous	6,588	-	6,588
Total revenues	4,540,372	16,132	4,556,504
<b>EXPENSES</b>			
Program services:			
Education	2,540,188	-	2,540,188
Support services:			
Management and general	1,323,652	-	1,323,652
Total expenses	3,863,840	-	3,863,840
<b>CHANGE IN NET ASSETS</b>	676,532	16,132	692,664
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	(11,627)	-	(11,627)
<b>NET ASSETS, END OF YEAR</b>	\$ 664,905	\$ 16,132	\$ 681,037

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**STATEMENTS OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2016**

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets	\$ 692,664
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	19,387
(Increase) decrease in operating assets:	
Accounts receivable	(571,498)
Prepaid expenses	3,525
Increase (decrease) in operating liabilities:	
Accounts payable	87,300
Accrued expenses	8,278
Net cash provided by operating activities	<u>239,656</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of fixed assets	<u>(43,535)</u>
Net cash used in investing activities	<u>(43,535)</u>

**CASH FLOW FROM FINANCING ACTIVITIES:**

Proceeds from factoring agreements	2,300,000
Payment on promissory note	(140,000)
Payments on factoring agreements	<u>(2,215,685)</u>
Net cash used in financing activities	<u>(55,685)</u>

**NET CHANGE IN CASH** 140,436

**CASH, BEGINNING OF YEAR** 38,028

**CASH, END OF YEAR** \$ 178,464

**SUPPLEMENTAL DISCLOSURES:**

Cash paid for interest	<u>\$ 53,215</u>
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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. ORGANIZATION AND MISSION**

Highlands Community Charter School (the Organization) is a non-profit public benefit corporation. The Organization petitioned and was approved for a charter through Twin Rivers Unified School District on May 4, 2015, for a five year period ending June 30, 2019. The Organization was approved by the State of California Department of Education on July 10, 2015, and currently serves 424 students.

The mission of the Organization is serving the unserved, by providing the education for a high school diploma to our students, along with elective courses leading to a Certificate of Completion in one of our Career and Technical Education courses, thereby giving our students all of the tools necessary to obtain a livable wage job, and a future for themselves and their family. The Organization offers students additional courses and time beyond the required schedules listed in the Schedule of Instructional Time.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Financial Statement Presentation***

The financial statements are presented in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, the Organization reports information regarding its financial position and activities according to three classes of net assets:

*Unrestricted Net Assets:* Unrestricted net assets are available to support all activities of the Organization, and are not subject to donor-imposed stipulations. These generally result from revenues generated by providing services, receiving unrestricted contributions, and receiving interest from investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

*Temporarily Restricted Net Assets:* Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. There was \$16,132 in temporarily restricted net assets as of June 30, 2016.

*Permanently Restricted Net Assets:* Net assets that are subject to donor-imposed stipulations that the restrictions be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. There were no permanently restricted net assets as of June 30, 2016.

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Accounting Method - Basis of Accounting***

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Organization uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

***Use of Estimates***

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

***Income Taxes***

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3). It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose. The Organization uses the same accounting methods for tax and financial reporting.

Generally accepted accounting principles (GAAP) provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

***Functional Allocation of Expenses***

The costs of providing the program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and management's estimates of the usage of resources.

***Cash and Cash Equivalents***

Cash are from time to time variously composed of cash on hand and in banks. The Organization considers all highly liquid investments with original maturities of three months or less at the time of acquisition to be cash equivalents. As of June 30, 2016, the Organization had no cash equivalents.

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Fixed Assets***

Fixed assets are recorded at cost and depreciated under the straight-line method over their estimated useful lives of 5 to 10 years. Repair and maintenance costs, which do not extend the useful lives of the asset, are charged to expense. The cost of assets, sold or retired, and related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal, and any resulting gain or loss is included in the earnings. Management has elected to capitalize and depreciate all assets costing \$5,000 or more; all other assets are charged to expense in the year incurred.

***Revenue Sources and Recognition***

The Organization receives federal, state and local revenues for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies.

The Organization primarily receives the funds from the California Department of Education (CDE). Amounts received from the CDE are recognized by the Organization based on the average daily attendance (ADA) of students.

The Organization recognizes federal revenue to the extent that eligible expenditures have been incurred.

Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

***New Accounting Pronouncements***

In August 2016, The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. ASU 2016-14 requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization has not yet assessed the potential impact of this guidance on its financial statements.

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Reclassifications*

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

**3. CASH**

Cash at June 30, 2016, consisted of the follows:

Deposits:

Cash in banks	\$ 178,464
Total cash	<u>\$ 178,464</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At June 30, 2016, the Organization had no uninsured funds.

**4. ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2016, consisted of the follows:

Revenue limit sources:

State apportionments	\$ 1,062,506
In-lieu of property taxes	125,304
State revenues	144,620

Local revenues:

Miscellaneous	30,165
Total accounts receivable	<u>\$ 1,362,595</u>

**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**5. FIXED ASSETS, NET**

Fixed assets, net at June 30, 2016, for Highlands Community Charter School, consisted of the following:

Furniture and fixtures	\$ 105,820
Less: accumulated depreciation	<u>(26,702)</u>
Total fixed assets, net of depreciation	<u><u>\$ 79,118</u></u>

During the fiscal year end June 30, 2016, the Organization had \$19,387 in depreciation expense.

**6. NOTE PAYABLE**

On January 27, 2015, the Organization entered into a promissory note agreement with Delta Managed Solutions, Inc. in the principal amount of \$140,000 with interest at 6.50%, per annum. The note matured on August 1, 2015, and was paid in full at maturity. Short-term notes payable at June 30, 2016, consisted of the follows:

	<b>Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance</b>
	<b>6/30/2015</b>			<b>30-Jun-16</b>
Promissory note	\$ 140,000	\$ -	\$ (140,000)	\$ -
Total	<u>\$ 140,000</u>	<u>\$ -</u>	<u>\$ (140,000)</u>	<u>\$ -</u>

**7. FACTORING AGREEMENTS**

***Factoring Agreements - Charter School Capital***

During the fiscal year ended June 30, 2015, the Organization entered into factoring agreements with Charter School Capital (CSC) under which CSC advanced funds to the Organization in the aggregate amount of \$955,700 against future expected State apportionments totaling \$1,030,802. In accordance with the agreements, the Organization agreed to repay to CSC the total expected apportionment amount upon receipt of apportionment funds. As of June 30, 2015, the balance owed by the Organization under these agreements totaled \$610,100. This amount was paid in full during the fiscal year ended June 30, 2016.

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**7. FACTORING AGREEMENTS (continued)**

*Factoring Agreements - Charter Asset Management*

During the fiscal year ended June 30, 2016, the Organization entered into factoring agreements with Charter Asset Management (CAM) under which CAM advanced funds to the Organization in the aggregate amount of \$2,300,000 against future expected State apportionments totaling \$2,418,719. In accordance with the agreements, the Organization agreed to repay to CAM the total expected apportionment amount upon the receipt of apportionment funds. The difference of \$118,719 represents administrative fees and discounts charged by CAM under the agreements. During the fiscal year ended June 30, 2016, the Organization repaid a total of \$1,724,304 to CAM, and at June 30, 2016 the balance owed, which is included on the accompanying Statement of Financial Position in accrued expenses, totaled \$694,415. In November 2016, the Organization remitted the \$694,415 owed to CAM under these agreements.

**8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of entitlements received but not expended as of June 30, 2016. At June 30, 2016, the Organization temporarily restricted net assets consisted of:

Educator effectiveness	\$ 16,132
Total temporarily restricted net assets	<u>\$ 16,132</u>

**9. EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS).

*Plan Description and Funding Policy*

**STRS**

*Plan Description*

The Organization contributes to STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total plan net assets are \$180.6 billion, the total actuarial present value of accumulated plan benefits is \$301.3 billion, contributions from all employers totaled \$2.5 billion and the plan is 68.5% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**9. EMPLOYEE RETIREMENT SYSTEMS** (continued)

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and [www.calstrs.com](http://www.calstrs.com).

*Funding Policy*

Active plan members are required to contribute 9.20% of their salary and the Organization is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2015-2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established by state statute. The Organization's contributions to STRS for the fiscal year ending June 30, 2016 were \$143,337 and equals 100% of the required contributions for the fiscal year.

**10. COMMITMENTS AND CONTINGENCIES**

*State Allowances, Awards, and Grants*

The Organization has received state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, management believes that any required reimbursement will not be material.

**11. SUBSEQUENT EVENTS**

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through December XX, 2016, which is the date the financial statements were available to be issued.

On October 4, 2016, the Organization entered into a factoring agreement with CAM under which it sold the accounts receivable with a face value of \$317,146 to CAM, in exchange for net proceeds of \$300,000. The difference of \$17,146 represents administrative fees and factor discount charged by CAM.

## **SUPPLEMENTARY INFORMATION**

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**HIGHLANDS COMMUNITY CHARTER SCHOOL  
ORGANIZATION  
JUNE 30, 2016**

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Highlands Community Charter School [Charter #1674], is a kindergarten through grade 12 Charter School and was granted its charter by the Twin Rivers Unified School District on May 4, 2014, pursuant to the terms of the Charter School Act of 1992, as amended.

The Board of Directors for the fiscal year ended June 30, 2016, was comprised of the following members:

<b>Name</b>	<b>Office</b>	<b>Term</b>	<b>Term Expiration</b>
Sharon Rocco	Chairperson	3 Years	July 28, 2018
Sonja Cameron	Director	3 Years	March 3, 2019
Matt Powers	Secretary	3 Years	November 6, 2017
Doyle Radford	Director	3 Years	May 8, 2017
Rick Jones	Director	3 Year	July 28, 2018

**Administration**

<b>Name</b>	<b>Position</b>
Murdock Williams	Executive Director/CEO

**HIGHLANDS COMMUNITY CHARTER SCHOOL  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
For the Fiscal Year Ended June 30, 2016**

		<b>Track A</b>	
		<b>Second Period Report</b>	<b>Annual Report</b>
Transitional Kindergarten/Kindergarten - Grade 3		0.04	0.04
Grades 9 -12		14.50	13.93
Total		14.54	13.97

		<b>Track B</b>	
		<b>Second Period Report</b>	<b>Annual Report</b>
Grades 9 -12		34.61	30.98
Total		34.61	30.98

		<b>Track C</b>	
		<b>Second Period Report</b>	<b>Annual Report</b>
Grades 9 -12		23.23	19.91
Total		23.23	19.91

		<b>Track D</b>	
		<b>Second Period Report</b>	<b>Annual Report</b>
Transitional Kindergarten/Kindergarten - Grade 3		0.18	0.26
Grades 9 -12		101.73	120.60
Total		101.91	120.86

		<b>Track E</b>	
		<b>Second Period Report</b>	<b>Annual Report</b>
Transitional Kindergarten/Kindergarten - Grade 3		215.47	222.66
Grades 9 -12		14.22	14.71
Total		229.69	237.37

The Organization is 100% classroom-based and generates no ADA from an independent study program.

**HIGHLANDS COMMUNITY CHARTER SCHOOL  
SCHEDULE OF INSTRUCTIONAL TIME  
For the Fiscal Year Ended June 30, 2016**

<b>2015-2016</b>		<b><u>Track A</u></b>									<b>Number</b>	<b>Status</b>
<b>Minutes</b>	<b>Actual Minutes</b>											
<b>Grade Level</b>	<b>Requirements</b>	<b>Schedule A</b>	<b>Schedule B</b>	<b>Schedule C</b>	<b>Schedule D</b>	<b>Schedule E</b>	<b>Schedule F</b>	<b>Schedule G</b>	<b>Schedule H</b>	<b>Schedule I</b>	<b>Calendar</b>	
Grade 12	64,800	65,625	65,625	66,500	66,500	77,000	71,750	70,000	65,625	66,500	175	In Compliance
<b>2015-2016</b>		<b><u>Track B</u></b>									<b>Number</b>	<b>Status</b>
<b>Minutes</b>	<b>Actual Minutes</b>											
<b>Grade Level</b>	<b>Requirements</b>	<b>Schedule A</b>	<b>Schedule B</b>	<b>Schedule C</b>	<b>Schedule D</b>	<b>Schedule E</b>	<b>Schedule F</b>	<b>Schedule G</b>	<b>Schedule H</b>	<b>Schedule I</b>	<b>Calendar</b>	
Grade 12	64,800	65,625	65,625	66,500	66,500	77,000	71,750	70,000	65,625	66,500	175	In Compliance
<b>2015-2016</b>		<b><u>Track C</u></b>									<b>Number</b>	<b>Status</b>
<b>Minutes</b>	<b>Actual Minutes</b>											
<b>Grade Level</b>	<b>Requirements</b>	<b>Schedule A</b>	<b>Schedule B</b>	<b>Schedule C</b>	<b>Schedule D</b>	<b>Schedule E</b>	<b>Schedule F</b>	<b>Schedule G</b>	<b>Schedule H</b>	<b>Schedule I</b>	<b>Calendar</b>	
Grade 12	64,800	65,625	65,625	66,500	66,500	77,000	71,750	70,000	65,625	66,500	175	In Compliance
<b>2015-2016</b>		<b><u>Track D</u></b>									<b>Number</b>	<b>Status</b>
<b>Minutes</b>	<b>Actual Minutes</b>											
<b>Grade Level</b>	<b>Requirements</b>	<b>Schedule A</b>	<b>Schedule B</b>	<b>Schedule C</b>	<b>Schedule D</b>	<b>Schedule E</b>	<b>Schedule F</b>	<b>Schedule G</b>	<b>Schedule H</b>	<b>Schedule I</b>	<b>Calendar</b>	
Grade 12	64,800	65,625	65,625	66,500	66,500	77,000	71,750	70,000	65,625	66,500	175	In Compliance
<b>2015-2016</b>		<b><u>Track E</u></b>									<b>Number</b>	<b>Status</b>
<b>Minutes</b>	<b>Actual Minutes</b>											
<b>Grade Level</b>	<b>Requirements</b>	<b>Schedule A</b>	<b>Schedule B</b>	<b>Schedule C</b>	<b>Schedule D</b>	<b>Schedule E</b>	<b>Schedule F</b>	<b>Schedule G</b>	<b>Schedule H</b>	<b>Schedule I</b>	<b>Calendar</b>	
Grade 12	64,800	84,000	84,000	85,120	85,120	98,560	91,840	89,600	84,000	85,120	175	In Compliance
<b>2015-2016</b>		<b><u>Track E</u></b>									<b>Number</b>	<b>Status</b>
<b>Minutes</b>	<b>Actual Minutes</b>											
<b>Grade Level</b>	<b>Requirements</b>	<b>Schedule J</b>	<b>Schedule K</b>	<b>Schedule L</b>	<b>Schedule M</b>	<b>Schedule N</b>	<b>Schedule O</b>	<b>Schedule P</b>	<b>Schedule Q</b>	<b>Schedule R</b>	<b>Calendar</b>	
Grade 1-3	50,400	54,880	54,880	50,400	53,760	50,400	50,400	52,640	56,000	50,400	175	In Compliance

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Fiscal Year Ended June 30, 2016**

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	<u>Program Services</u>	<u>Support Services</u>	
	<u>Education</u>	<u>Management and General</u>	<u>Total</u>
Certificated salaries	\$ 1,125,797	\$ 289,850	\$ 1,415,647
Classified salaries	395,079	125,302	520,381
Employee benefits	619,881	53,735	673,616
Books and supplies	227,603	24,707	252,310
Professional/consulting services and operating expenditures	171,828	757,456	929,284
Depreciation	-	19,387	19,387
Interest	-	53,215	53,215
Total expenses	<u>\$ 2,540,188</u>	<u>1,323,652</u>	<u>\$ 3,863,840</u>

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**HIGHLANDS COMMUNITY CHARTER SCHOOL  
RECONCILIATION OF CHARTER SCHOOL UNAUDITED ACTUALS  
REPORT WITH AUDITED FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2016**

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	<u>Charter School</u>
June 30, 2016, Charter School Unaudited Actuals Repor ending fund balances	\$ 614,314
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Fixed assets understatement	7,349
Accounts payable understatement	29,685
Unearned revenue overstatement	29,685
Rounding adjustment	<u>4</u>
Net adjustments and reclassifications	<u>66,723</u>
June 30, 2016, audited financial statement net assets	<u><u>\$ 681,037</u></u>

**OTHER INDEPENDENT AUDITOR'S REPORTS**

**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  
Highlands Community Charter School  
Sacramento, California

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 Highlands Community Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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 December 14, 2016.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Highlands Community Charter School'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 Highlands Community Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Highlands Community Charter School'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 Highlands Community Charter School'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

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

*SQUAR MILNER LLP*

**SQUAR MILNER LLP**

San Diego, California  
December 14, 2016

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors  
Highlands Community Charter School  
Sacramento, California

### **Report on Compliance for Each State Program**

We have audited Highlands Community Charter School's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of Highlands Community Charter School's state programs for the fiscal year ended June 30, 2016. Highlands Community Charter School's state programs are identified below.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

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

Our responsibility is to express an opinion on compliance for each of Highlands Community Charter School's state 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 State's Audit Guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards 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 state program occurred. An audit includes examining, on a test basis, evidence about Highlands Community Charter School'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 state program. However, our audit does not provide a legal determination of Highlands Community Charter School's compliance.

In connection with the audit referred to above, we selected transactions and records to determine the Organization's compliance with the state laws and regulations applicable to the following items:



<b>Description</b>	<b>Procedures Performed</b>
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Not Applicable
After School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	Not Applicable

The term “Not Applicable” is used above to mean either that the Organization did not offer the program during the current fiscal year, or that the program applies only to a different type of local education agency.

### ***Opinion on State Programs***

In our opinion, Highlands Community Charter School 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 state programs for the fiscal year ended June 30, 2016.

The purpose of this report on state compliance is solely to describe the scope of our testing of state compliance and the results of that testing based on the requirements of *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

**SQUAR MILNER LLP**

San Diego, California  
December 14, 2016

## **FINDINGS AND RECOMMENDATIONS SECTION**

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**HIGHLANDS COMMUNITY CHARTER SCHOOL**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2016**

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**A. Summary of Auditor's Results**

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?        Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None Reported

Noncompliance material to financial statements noted?        Yes   X   No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?        Yes   N/A   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   N/A   None Reported

Type of auditor's report issued on compliance for major programs:       N/A      

Any audit findings disclosed that are required under Section 200.516 Audit Findings paragraph (a) of OMB Uniform Guidance?        Yes   N/A   No

Identification of major programs:

CFDA Number(s)                      Name of Federal Program or Cluster

*The Organization did not have over \$750,000 in Federal Expenditures.*

Dollar threshold used to distinguish between type A and type B programs:       N/A      

Auditee qualified as low-risk auditee?        Yes   N/A   No



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**HIGHLANDS COMMUNITY CHARTER SCHOOL  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2016**

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<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Implemented</u>
None	N/A	N/A