



Certified Public Accountants
and Financial Advisors

**Highlands Community Charter
School**

Charter School #1674
Financial Statements
June 30, 2017

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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, 2017, 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, 2017, 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 15, 2017, 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 15, 2017

HIGHLANDS COMMUNITY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

Current assets:

Accounts receivable	\$ 3,018,358
Prepaid expenses	85,435
Total current assets	<u>3,103,793</u>

Fixed assets, net	215,472
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Deposits	8,613
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Total noncurrent assets	<u>224,085</u>
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TOTAL ASSETS	<u>\$ 3,327,878</u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Cash overdraft	\$ 93,622
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Accounts payable	797,019
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Accrued expenses	359,705
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Notes payable, current portion	935,000
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Total current liabilities	<u>2,185,346</u>
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Net assets:

Temporarily restricted	91,132
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Unrestricted	1,051,400
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Total net assets	<u>1,142,532</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,327,878</u>
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HIGHLANDS COMMUNITY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES			
Revenue limit sources:			
State apportionments	\$ 8,360,417	\$ -	\$ 8,360,417
Education protection account	184,708	-	184,708
In-lieu of property taxes	1,265,579	-	1,265,579
Federal revenues	575,000	-	575,000
State revenues	707,635	75,000	782,635
Local revenues:			
Miscellaneous	12,436	-	12,436
Total revenues	<u>11,105,775</u>	<u>75,000</u>	<u>11,180,775</u>
EXPENSES			
Program services:			
Education	7,762,421	-	7,762,421
Support services:			
Management and general	2,956,859	-	2,956,859
Total expenses	<u>10,719,280</u>	<u>-</u>	<u>10,719,280</u>
CHANGE IN NET ASSETS	386,495	75,000	461,495
NET ASSETS, BEGINNING OF YEAR	<u>664,905</u>	<u>16,132</u>	<u>681,037</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,051,400</u></u>	<u><u>\$ 91,132</u></u>	<u><u>\$ 1,142,532</u></u>

HIGHLANDS COMMUNITY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 461,495
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	51,533
(Increase) decrease in operating assets:	
Accounts receivable	(1,655,763)
Prepaid expenses	(94,048)
Increase (decrease) in operating liabilities:	
Cash overdraft	93,622
Accounts payable	685,584
Accrued expenses	226,415
Net cash used in operating activities	<u>(231,162)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets	<u>(187,887)</u>
Net cash used in investing activities	<u>(187,887)</u>

CASH FLOW FROM FINANCING ACTIVITIES:

Proceeds from factoring agreements	1,535,000
Payments on factoring agreements	(2,229,415)
Proceeds from issuance of note payable	3,000,000
Payments on note payable	<u>(2,065,000)</u>
Net cash provided by financing activities	<u>240,585</u>

NET CHANGE IN CASH (178,464)

CASH, BEGINNING OF YEAR 178,464

CASH, END OF YEAR \$ -

SUPPLEMENTAL DISCLOSURES:

Cash paid for interest	<u><u>\$ 197,663</u></u>
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HIGHLANDS COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 959 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 \$91,132 in temporarily restricted net assets as of June 30, 2017.

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, 2017.

HIGHLANDS COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 (GAAP) 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 GAAP 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.

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, 2017, the Organization had no cash equivalents.

HIGHLANDS COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 primarily receives funds from the California Department of Education (CDE). Revenue limit sources received from the CDE are determined based on the Organization's average daily attendance (ADA) of students and recognized in the period the ADA occurs.

In addition, 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 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 change presentation and disclosure requirements for not-for-profit entities to 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. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. However, under this Update, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively,

HIGHLANDS COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

rather than the current required three classes (unrestricted, temporarily restricted and permanently restricted).

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (See Note 10).

3. CASH

Cash at June 30, 2017 consisted of the follows:

Cash deficit	\$ (93,622)
Total cash deficit	<u>\$ (93,622)</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, 2017, the Organization had no cash in excess of FDIC limits.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of the follows:

Revenue limit sources:	
State apportionments	\$ 2,022,210
Education protection account	62,488
In-lieu of property taxes	412,996
Federal revenues	57,500
State revenues	448,643
Local revenues:	
Miscellaneous	14,521
Total accounts receivable	<u>\$ 3,018,358</u>

HIGHLANDS COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

5. FIXED ASSETS, NET

Fixed assets, net at June 30, 2017, consisted of the following:

Buildings	\$ 16,348
Furniture and fixtures	277,359
Less: accumulated depreciation	<u>(78,235)</u>
Total fixed assets, net of depreciation	<u><u>\$ 215,472</u></u>

During the fiscal year end June 30, 2017, the Organization recirded \$51,533 in depreciation expense.

6. NOTE PAYABLE

On November 2016, the Organization issued the 2016 Revenue Anticipation Notes, Series A (RANs) for \$3,000,000, for working capital purpose. The RANs matured on September 15, 2017, accrue interest at 6.25% per annum, and are secured by all assets and revenues of the Organization. Principal and interest payment of the RANs will be deposited into a trust, which in turn will provide payment to the beneficial owners of the RANs. As of June 30, 2017, the Organization has deposited \$3,149,479 in principal and accrued interest into the trust. The RANs were paid in full subsequent to year end. Note payable at June 30, 2017 consisted of the follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due in</u> <u>One year</u>
Note Payable	\$ -	\$ 3,000,000	\$(2,065,000)	\$ 935,000	\$ 935,000
Total	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$(2,065,000)</u>	<u>\$ 935,000</u>	<u>\$ 935,000</u>

7. FACTORING AGREEMENTS

Factoring Agreements - Charter Asset Management

During the fiscal year ended June 30, 2017, the Organization entered into factoring agreements with Charter Asset Management (CAM) under which CAM advanced funds to the Organization in the aggregate amount of \$1,535,000 against future expected state apportionments totaling \$1,608,916. 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 \$73,916 represents administrative fees and discounts charged by CAM under the agreements. During the fiscal year ended June 30, 2017, the Organization repaid paid a total of \$2,229,415, which includes the balance owed as of June 30, 2016 of \$694,415. As of June 30, 2017, there were no obligations owed under the agreement.

HIGHLANDS COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of entitlements received but not expended as of June 30, 2017. At June 30, 2017, the Organization temporarily restricted net assets consisted of:

College readiness block grant	\$ 75,000
Educator effectiveness	16,132
Total temporarily restricted net assets	<u>\$ 91,132</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. 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 actuarial valuation report as of June 30, 2016, total plan net assets are \$177.9 billion, the total actuarial present value of accumulated plan benefits is \$333.3 billion, contributions from all employers totaled \$3.2 billion and the plan is 63.7% funded. The Organization did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and 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 2016-2017 was 12.58% 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, 2017, were \$400,729 and equal 100% of the required contributions for the year.

HIGHLANDS COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

10. LEASES

The Organization leases office equipment under operating lease agreements in excess of one year. The future minimum lease payments are as follows:

Year Ending June 30,	Lease Payments
2018	\$ 340,881
2019	320,631
Total future minimum lease payments	<u>\$ 661,512</u>

The Organization will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. For the fiscal year ended June 30, 2017, operating lease expense was \$592,779.

11. 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.

12. 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 15, 2017, which is the date the financial statements were available to be issued. Except as disclosed in Note 6, management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

**HIGHLANDS COMMUNITY CHARTER SCHOOL
ORGANIZATION
JUNE 30, 2017**

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 expiring June 30, 2019, pursuant to the terms of the Charter School Act of 1992, as amended.

The Board of Directors for the fiscal year ended June 30, 2017, was comprised of the following members:

Name	Office	Term	Term Expiration
Sharon Rocco	Chairperson	3 Years	July 28, 2018
Sonja Cameron	Director	3 Years	March 3, 2019
Matt Powers	Secretary	3 Years	November 6, 2020
Doyle Radford	Vice-President	3 Years	May 8, 2020
Rick Jones	Director	3 Years	July 28, 2018
Ernie Daniels	Director	3 Years	August 10, 2020
Lauren Mistretta	Director	3 Years	August 10, 2020
Kevin Ferreira	Director	3 Years	August 10, 2020
Sondra Betancourt	Local Education Agency Representative	N/A	N/A

Administration

Name	Position
Murdock Smith	Executive Director/CEO

**HIGHLANDS COMMUNITY CHARTER SCHOOL
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Fiscal Year Ended June 30, 2017**

	<u>Second Period Report</u>	<u>Annual Report</u>
Transitional Kindergarten/Kindergarten - Grade 3	612.79	672.08
Grades 9 -12	310.75	286.44
Total	<u>923.54</u>	<u>958.52</u>

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, 2017**

2016-2017		<u>Track A</u>												Number of Traditional Calendar	Status
Minutes	Actual Minutes	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L		
Grade Level	Requirements	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L	Calendar	Status
Grade 12	64,800	84,750	84,750	84,750	84,750	84,750	84,750	84,750	84,750	84,750	84,750	75,936	67,800	226	In Compliance

2016-2017		<u>Track B</u>												Number of Traditional Calendar	Status
Minutes	Actual Minutes	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L		
Grade Level	Requirements	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L	Calendar	Status
Grade 12	64,800	76,500	76,500	76,500	76,500	76,500	76,500	76,500	76,500	76,500	76,500	68,544	N/A	204	In Compliance

2016-2017		<u>Track C</u>												Number of Traditional Calendar	Status
Minutes	Actual Minutes	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L		
Grade Level	Requirements	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L	Calendar	Status
Grade 12	64,800	72,750	72,750	72,750	72,750	72,750	72,750	72,750	72,750	72,750	72,750	65,184	N/A	194	In Compliance

2016-2017		<u>Track D</u>												Number of Traditional Calendar	Status
Minutes	Actual Minutes	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L		
Grade Level	Requirements	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L	Calendar	Status
Grade 12	64,800	65,625	65,625	65,625	66,500	65,625	65,625	68,250	65,625	65,625	65,625	N/A	N/A	175	In Compliance

2016-2017		<u>Track E</u>												Number of Traditional Calendar	Status
Minutes	Actual Minutes	Schedule M	Schedule N	Schedule O	Schedule P	Schedule Q	Schedule R	Schedule S	Schedule T	Schedule U	Schedule V	Schedule W	Schedule X		
Grade Level	Requirements	Schedule M	Schedule N	Schedule O	Schedule P	Schedule Q	Schedule R	Schedule S	Schedule T	Schedule U	Schedule V	Schedule W	Schedule X	Calendar	Status
Grade 1	50,400	54,240	81,360	54,240	50,850	50,850	50,850	50,850	50,850	50,850	50,850	54,240	55,370	226	In Compliance
Grade 2	50,400	54,240	81,360	54,240	50,850	50,850	50,850	50,850	50,850	50,850	50,850	54,240	55,370	226	In Compliance

Grade Level	Requirements	Schedule Y	Schedule Z	Schedule AA	Schedule AB	Schedule AC	Schedule AD	Calendar	Status
Grade 1	50,400	50,850	50,850	54,240	54,240	50,850	50,850	226	In Compliance
Grade 2	50,400	50,850	50,850	54,240	54,240	50,850	50,850	226	In Compliance

Grade Level	Requirements	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G	Schedule H	Schedule I	Schedule J	Schedule K	Schedule L	Calendar	Status
Grade 12	64,800	84,750	84,750	84,750	85,880	84,750	84,750	88,140	84,750	84,750	84,750	75,936	67,800	226	In Compliance

HIGHLANDS COMMUNITY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2017

	Program Services Education	Support Services Management and General	Total
Certificated salaries	\$ 3,274,291	\$ 46,716	\$ 3,321,007
Classified salaries	1,393,349	304,963	1,698,312
Employee benefits	1,566,932	120,452	1,687,384
Books and supplies	477,425	124,365	601,790
Professional/consulting services and operating expenditures	1,050,424	2,308,830	3,359,254
Depreciation	-	51,533	51,533
Total expenses	<u>\$ 7,762,421</u>	<u>2,956,859</u>	<u>\$ 10,719,280</u>

**HIGHLANDS COMMUNITY CHARTER SCHOOL
RECONCILIATION OF CHARTER SCHOOL UNAUDITED ACTUALS
REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2017**

June 30, 2017, Charter School Annual Financial Report -- Alternative Form, ending fund balance:	<u>\$ 1,109,562</u>
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Cash overstatement	(695,162)
Accounts receivables understatement	556,354
Fixed assets, net understatement	147,445
Deposits understatement	8,613
Prepays overstatement	(66,724)
Accounts payable overstatement	<u>82,444</u>
Net adjustments and reclassifications	<u>32,970</u>
June 30, 2017, audited financial statement net assets	<u><u>\$ 1,142,532</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, 2017, 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 15, 2017.

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 15, 2017

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 *2016-17 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, 2017. 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, *2016-17 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:



Description	Procedures Performed
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, 2017.

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 *2016-17 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 15, 2017

FINDINGS AND RECOMMENDATIONS SECTION

**HIGHLANDS COMMUNITY CHARTER SCHOOL
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2017**

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

**HIGHLANDS COMMUNITY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2017**

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