

HIGHLAND COMMUNITY SCHOOL, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022
(With Summarized Totals for the Year Ended June 30, 2021)

HIGHLAND COMMUNITY SCHOOL, INC.

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Independent Auditor's Report

Board of Directors
Highland Community School, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Highland Community School, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Highland Community School, Inc. as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Highland Community School, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Highland Community School, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Board of Directors
Highland Community School, Inc.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Highland Community School, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Highland Community School, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Highland Community School, Inc.'s June 30, 2021, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 22, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Board of Directors
Highland Community School, Inc.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating revenue without donor restrictions and expenses by program and the schedule of MPS contract revenues and expenditures are presented for purposes of additional analysis and are 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 September 28, 2022, on our consideration of Highland Community School, 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 Highland Community School, 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 Highland Community School, Inc.'s internal control over financial reporting and compliance.


RITZ HOLMAN LLP
Certified Public Accountants

Milwaukee, Wisconsin
September 28, 2022

HIGHLAND COMMUNITY SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022
(With Summarized Totals for June 30, 2021)

ASSETS		
	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,338,517	\$ 592,042
Investments	1,687,663	2,363,346
Accounts and Grants Receivable	450,490	187,221
Pledges Receivable	1,969	13,103
Prepaid Expenses	44,279	36,596
Total Current Assets	\$ 3,522,918	\$ 3,192,308
FIXED ASSETS		
Land	\$ 122,850	\$ 122,850
Buildings and Improvements	1,377,867	1,377,867
Equipment and Software	174,520	177,560
Construction in Progress	1,739,214	598,370
Total Fixed Assets	\$ 3,414,451	\$ 2,276,647
Less: Accumulated Depreciation	(408,877)	(399,506)
Net Fixed Assets	\$ 3,005,574	\$ 1,877,141
OTHER ASSETS		
Beneficial Interest - Greater Milwaukee Foundation	\$ 125,547	\$ 152,562
Total Other Assets	\$ 125,547	\$ 152,562
TOTAL ASSETS	\$ 6,654,039	\$ 5,222,011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 59,637	\$ 243,147
Accrued Payroll and Related Liabilities	211,748	230,736
Accrued Retirement Match	33,402	34,224
Accrued Paid Time Off	31,473	31,422
Deferred Revenue and Refundable Advances	1,277,615	816,227
Current Portion of Long-Term Liabilities	99,955	9,439
Total Current Liabilities	\$ 1,713,830	\$ 1,365,195
LONG-TERM LIABILITIES		
Mortgage Payable	\$ 2,498,000	\$ 1,262,068
Less: Current Portion of the Mortgage Payable	(93,344)	---
Capital Leases	30,991	9,439
Less: Current Portion of the Capital Lease	(6,611)	(9,439)
Total Long-Term Liabilities	\$ 2,429,036	\$ 1,262,068
Total Liabilities	\$ 4,142,866	\$ 2,627,263
NET ASSETS		
Without Donor Restrictions		
Undesignated	\$ 1,612,825	\$ 1,735,897
Board Designated	602,863	572,863
Total Without Donor Restrictions	\$ 2,215,688	\$ 2,308,760
With Donor Restrictions	295,485	285,988
Total Net Assets	\$ 2,511,173	\$ 2,594,748
TOTAL LIABILITIES AND NET ASSETS	\$ 6,654,039	\$ 5,222,011

The accompanying notes are an integral part of these financial statements.

HIGHLAND COMMUNITY SCHOOL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022
(With Summarized Totals for the Year Ended June 30, 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>	<u>2021 Total</u>
REVENUE				
Milwaukee Public Schools				
Charter Contract	\$ 3,864,420	\$ ---	\$ 3,864,420	\$ 3,885,706
Charter Change in Refundable Advance	(401,320)	---	(401,320)	(214,131)
Title I	195,035	---	195,035	173,023
Special Education	182,564	---	182,564	161,923
Common School Fund	11,610	---	11,610	10,892
ESSER	503,567	---	503,567	166,811
GEER	---	---	---	23,390
Grants	136,459	36,546	173,005	143,624
Paycheck Protection Program	---	---	---	621,505
Corporate and Individual Contributions	36,008	2,800	38,808	81,854
Program Fee Income	659,302	---	659,302	25,420
Student Activity Revenue	58,985	---	58,985	21,131
Fundraising Revenue	20,540	---	20,540	773
Fundraising Expense	(12,891)	---	(12,891)	(170)
Donated Goods and Services	19,470	---	19,470	16,268
Other Revenue	15	---	15	---
Net Assets Released from Restrictions	7,354	(7,354)	---	---
Total Revenue	<u>\$ 5,281,118</u>	<u>\$ 31,992</u>	<u>\$ 5,313,110</u>	<u>\$ 5,118,019</u>
EXPENSES				
Program	\$ 4,638,834	\$ ---	\$ 4,638,834	\$ 4,317,815
Management	469,526	---	469,526	417,418
Fundraising	80,570	---	80,570	69,402
Total Expenses	<u>\$ 5,188,930</u>	<u>\$ ---</u>	<u>\$ 5,188,930</u>	<u>\$ 4,804,635</u>
CHANGE IN NET ASSETS FROM OPERATIONS				
	<u>\$ 92,188</u>	<u>\$ 31,992</u>	<u>\$ 124,180</u>	<u>\$ 313,384</u>
OTHER CHANGES				
Net Investment Return on Beneficial Interest	\$ ---	\$ (22,495)	\$ (22,495)	\$ 31,350
Investment Income	(185,260)	---	(185,260)	150,101
Total Other Changes	<u>\$ (185,260)</u>	<u>\$ (22,495)</u>	<u>\$ (207,755)</u>	<u>\$ 181,451</u>
CHANGE IN NET ASSETS				
	<u>\$ (93,072)</u>	<u>\$ 9,497</u>	<u>\$ (83,575)</u>	<u>\$ 494,835</u>
Net Assets, Beginning of Year	<u>2,308,760</u>	<u>285,988</u>	<u>2,594,748</u>	<u>2,099,913</u>
NET ASSETS, END OF YEAR	<u>\$ 2,215,688</u>	<u>\$ 295,485</u>	<u>\$ 2,511,173</u>	<u>\$ 2,594,748</u>

The accompanying notes are an integral part of these financial statements.

HIGHLAND COMMUNITY SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
(With Summarized Totals for the Year Ended June 30, 2021)

EXPENSES	Program	Management	Fundraising	2022 Total	2021 Total
Salaries	\$ 2,606,991	\$ 320,423	\$ 63,669	\$ 2,991,083	\$ 2,954,960
Employee Benefits	477,034	60,169	4,865	542,068	442,695
Retirement Expense	28,840	5,812	645	35,297	35,239
Payroll Taxes	211,042	25,917	4,974	241,933	240,449
Meal Program	9,542	---	---	9,542	1,106
Classroom, Library and Program Supplies	261,615	---	280	261,895	203,027
Field Trips and Educational Programming	22,568	---	---	22,568	4,353
Family and Community Involvement	12,155	---	---	12,155	8,893
Purchased Services and Professional Fees	25,942	---	54	25,996	47,700
Professional Development and Board Expenses	54,341	424	---	54,765	51,019
Memberships and Subscriptions	2,529	229	---	2,758	2,183
Office Supplies	2,244	621	145	3,010	3,258
Postage and Shipping	9,990	5	323	10,318	4,488
Printing	19,559	49	---	19,608	20,751
Information Technology - Software, Hardware	10,255	7,334	2,988	20,577	26,985
Information Technology - Contractors	96,520	8,400	---	104,920	110,189
Telephone	16,363	1,456	---	17,819	17,171
Occupancy Costs	107,965	19,280	1,285	128,530	83,955
Business Insurance	39,842	1,260	900	42,002	39,674
Security	1,992	37	---	2,029	1,478
Building Maintenance, Janitorial and Landscape	227,664	3,467	---	231,131	155,633
Depreciation	43,945	1,736	---	45,681	46,015
Special Education Services	208,579	---	---	208,579	167,847
MPS Administrative Fee	77,288	---	---	77,288	77,803
Interest Expense	51,701	---	---	51,701	51,848
Primary Fee Waivers and Bad Debts Expense	---	12,713	---	12,713	3,681
Other Expenses	12,328	194	442	12,964	2,236
TOTALS	\$ 4,638,834	\$ 469,526	\$ 80,570	\$ 5,188,930	\$ 4,804,636

The accompanying notes are an integral part of these financial statements.

HIGHLAND COMMUNITY SCHOOL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(With Summarized Totals for the Year Ended June 30, 2021)

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (83,575)	\$ 494,835
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	45,681	46,015
Loss (Gain) on Investments	233,635	(95,385)
(Gain)/Loss on Sale of Equipment	(5,462)	---
(Earnings) Losses on Beneficial Interest	22,495	(31,350)
Revenue from Forgiveness of Paycheck Protection Program Loan	---	(621,505)
(Increase) Decrease in Accounts and Grants Receivable	(263,269)	(83,316)
(Increase) Decrease in Prepaid Expenses	(7,683)	(19,050)
(Increase) Decrease in Pledges Receivable	11,134	(13,103)
Increase (Decrease) in Accounts Payable	(183,510)	169,898
Increase (Decrease) in Accrued Payroll and Related Liabilities	(18,988)	(24,701)
Increase (Decrease) in Accrued Retirement Match	(822)	2,606
Increase (Decrease) in Accrued Paid Time Off	51	(3,559)
Increase (Decrease) in Prepaid Parent Fees	---	---
Increase (Decrease) in Deferred Revenue and Refundable Advance	461,388	209,887
	<u>461,388</u>	<u>209,887</u>
Net Cash Provided by Operating Activities	<u>\$ 211,075</u>	<u>\$ 31,272</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	\$ (1,197,213)	\$ (2,506,017)
Proceeds from Investment Sales	1,639,261	2,832,475
Purchase of Fixed Assets	(1,140,844)	(616,074)
Distributions from Greater Milwaukee Foundation	4,520	4,372
	<u>4,520</u>	<u>4,372</u>
Net Cash Used by Investing Activities	<u>\$ (694,276)</u>	<u>\$ (285,244)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Mortgage Principal	\$ ---	\$ (933,401)
Proceeds from Construction Loan	1,235,932	1,262,068
Payment of Capital Lease Principal	(6,256)	(7,752)
	<u>(6,256)</u>	<u>(7,752)</u>
Net Cash Provided by Financing Activities	<u>\$ 1,229,676</u>	<u>\$ 320,915</u>
Net Increase in Cash and Cash Equivalents	\$ 746,475	\$ 66,943
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>592,042</u>	<u>525,099</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,338,517</u>	<u>\$ 592,042</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 112,542	\$ 50,735
Fixed Assets Obtained through Capital Lease	36,570	---

The accompanying notes are an integral part of these financial statements.

HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

**HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE A - Organization and Summary of Significant Accounting Policies

Organization

Highland Community School, Inc. (the "Organization") offers quality Montessori education in a nurturing environment that enriches, empowers and inspires children to reach their potential and encourages parents to become responsible for and involved with their children's education.

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less at purchase.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The Organization capitalizes assets with a value of \$5,000 and greater.

Accrued Paid Time Off

Accrued paid time off is stated at an estimate of future payments for paid time off that employees have earned and not yet used as of year-end. Amounts carried over are limited for Family and Medical Leave Act qualifying events, thus management does not expect all available paid time off to be used and the accrual is based on expected payouts.

Contributions and Grant Revenue

Contributions received and unconditional promises to give that have been received by the Organization are measured at fair value and are reported as increases in net assets. Contributions are considered available for the Organization's general operations and included in net assets without donor restrictions unless specifically restricted by a donor. A restricted contribution is reported in revenue and net assets without donor restrictions when the restriction is met within the same reporting period as the contribution is received. Contributions received restricted for a purpose not yet met or to support a future period are included in net assets with donor restrictions. When a donor restriction from a prior year 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. Conditional contributions are not recognized as revenue until they become unconditional. A conditional contribution is one that has both a barrier that must be overcome and an agreement requiring advance payment to be returned or future payment not to be obligated if the barrier is not overcome.

Net assets restricted for acquisition of building or equipment are reported as net assets with donor restrictions until the specified asset is placed in service when the net assets are released to net assets without donor restrictions.

**HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE A - Organization and Summary of Significant Accounting Policies (continued)

When a donor requires the investment of a contribution and restricts the use of investment income, the investment income is reported as net assets with donor restrictions until appropriated for the designated time or use when the net assets are released to net assets without donor restrictions.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Accordingly, the value of contributed time that does not meet these requirements has not been determined and is not reflected in the accompanying financial statements.

Government Grants and Contract Revenue

Government grants and contract revenue are recognized when earned. Revenue is earned when eligible expenditures, as defined in each grant, contract or other allowable cost manual, are made. Any cash received for revenue not yet earned is considered to be deferred revenue. Revenue earned but not yet paid to the Organization is included in grants receivable. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such review reduces expenditures allowable under these grants or contracts, the Organization records the disallowance at the time the final assessment is made. Management believes that disallowances, if any, would not have a significant effect on the financial statements.

Functional Expenses

The Organization allocates costs directly to program, management, or fundraising whenever possible. Certain expenses are attributable to one or more programs or supporting functions of the Organization. Those expenses include salaries, depreciation and facilities overhead. Salaries and related personnel costs are allocated based on estimated time and effort and facility costs are allocated based on square footage.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE B - Accounting Change and Future Pronouncements

Accounting Change

The Organization's financial statements have changed to adopt the *Accounting Standards Update 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*, and all subsequently issued accounting updates issued to clarify the standards. The updates are effective for the year ended June 30, 2022. The amendments in this update are required and provide new presentation and disclosure requirements about contributed nonfinancial assets to nonprofits, including additional disclosure requirements for recognized contributed services. Contributed nonfinancial assets are required to be reported as a separate line in the statement of activities. A financial statement note is required to provide disaggregated contributed nonfinancial assets by category including: the type of contributed nonfinancial asset; qualitative information about the monetization or utilization of the nonfinancial assets; the policy about the monetization or utilization of nonfinancial assets; a description of restrictions, valuation, and the market used to determine the fair value. The amendments, required to be presented retrospectively to all periods presented, do not change the recognition and measurement requirements for those assets.

The adoption of the new standard did not result in a material impact to the Organization's financial statements.

Future Pronouncements

Accounting Standards Update 2016-02, Leases (Topic 842) will be effective for fiscal years beginning after December 15, 2021. This update requires the recognition of lease assets and lease liabilities on the statement of financial position measured at the present value of lease payments and requires disclosure of key information about the leasing arrangements.

Accounting Standards Update 2020-08, Receivables – Nonrefundable Fees and Other Costs (Topic 310-20) will be effective for fiscal years beginning after December 15, 2021. The amendments in this update represent changes to clarify the codification. An organization shall apply the amendment prospectively. This amendment impacts the effective yield of an existing individual callable debt security.

Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326) will be effective for fiscal years beginning after December 15, 2022. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, including exploring more forward-looking alternatives.

**HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE C - Comparative Financial Information and Reclassifications

Comparative Financial Information

The financial information shown for June 30, 2021, in the accompanying financial statements is included to provide a basis for comparison with 2022. The comparative information is summarized by total only, not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity to generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Reclassifications

Certain amounts in the 2021 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2022 financial statements. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE D - Liquidity

The operations of the Organization are primarily funded through a non-instrumentality charter school contract with Milwaukee Public Schools and program fees from before and after school and summer programs. Financial assets are assets expected to be available within one year from the financial position date to meet the cash needs of the Organization for general expenditures and to pay obligations as they become due. Assets subject to donor or other contractual restrictions are excluded from financial assets as they are not considered to be available for general use. Board designated reserves are excluded from financial assets because the Board of Directors has set aside such funds on a long-term basis. In addition the Organization has a line of credit with \$100,000 available as needed.

Financial assets available for use consist of the following:

<u>Description</u>	<u>Amount</u>
Cash and Cash Equivalents	\$1,338,517
Investments	1,687,663
Accounts and Grants Receivable	450,490
Pledges Receivable	1,969
Less: Deferred Revenue and Refundable Advances	
Required to be Used in Certain Programs	(1,277,615)
Less: Donor or Contractual Restrictions	(169,938)
Less: Board Designated Long-Term Reserves	<u>(602,863)</u>
Total Financial Assets Available for General Use	<u>\$1,428,223</u>

NOTE E - Concentration of Risk

The Organization received aggregate revenue through Milwaukee Public Schools of \$4,357,523 during the year ended June 30, 2022. The funding accounted for 82% of the Organization's revenue for the year ended June 30, 2022, constituting a concentration of revenue from one source.

**HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE F - Accounts and Grants Receivable

Accounts and grants receivable consist of the following as of June 30, 2022:

<u>Source</u>	<u>Amount</u>
Milwaukee Public Schools	
ESSER	\$196,317
Special Education	157,662
Title I	20,916
Common School Funds	11,610
Childcare Program Fees	42,318
Wisconsin Department of Children and Families	18,145
Other Receivables	<u>8,600</u>
Gross Accounts and Grants Receivable	\$455,568
Less: Allowance for Uncollectible	<u>(5,078)</u>
Accounts and Grants Receivable	<u>\$450,490</u>

NOTE G - Conditional Grants

The Organization has received an allocation of ESSER funds through Milwaukee Public Schools that will be available for use in future periods if the Organization has qualifying expenses determined by funding requirements and allowable cost policies. The Organization will not receive the grant funds unless expenses are incurred on the required activity and within the allowable cost guidance. As of June 30, 2022, the Organization had available ESSER II funds of \$203,743 that can be used through September 30, 2023 and ESSER III funds of \$1,286,987 that can be used through September 30, 2024.

NOTE H - Pledges Receivable

The Organization has pledges receivable of \$1,969 expected to be collected within one year from the statement of financial position date.

NOTE I - Beneficial Interest

The Organization has a fund held at the Greater Milwaukee Foundation, a community foundation, for investment purposes. The Greater Milwaukee Foundation makes investment decisions and determines the amount of income to be transmitted annually to the Organization. The size of distributions from the fund is determined in accordance with the Greater Milwaukee Foundation's distribution policy. The value of the fund includes contributions and investment income less distributions. The beneficial interest in the Greater Milwaukee Foundation is considered to be with donor restrictions because the Greater Milwaukee Foundation holds ultimate variance power over the fund. The financial statements include \$125,547 of net assets with donor restrictions as of June 30, 2022, for the fair value of the Greater Milwaukee Foundation beneficial interest. Net investment return for the year ended June 30, 2022, was a loss of \$22,495 on funds held at the Greater Milwaukee Foundation.

**HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE J - Fair Value Measurements

The Organization has adopted the Financial Accounting Standards Board guidance on fair value measurements. A three-tier hierarchy is used to maximize the use of observable market data inputs and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are based primarily on valuation models with significant unobservable pricing inputs and which result in the use of management estimates.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2022:

<u>Investment Category</u>	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Mutual Funds	\$ 330,794	\$ 330,794	\$ ---	\$ ---
Fixed Income	1,356,869	1,356,869	---	---
Greater Milwaukee Foundation	<u>125,547</u>	<u>---</u>	<u>---</u>	<u>125,547</u>
Total	<u>\$1,813,210</u>	<u>\$1,687,663</u>	<u>\$ ---</u>	<u>\$125,547</u>

Greater Milwaukee Foundation investments include equities securities, fixed income securities, absolute return hedge funds, and long/short equity hedge funds. The funds are held by the Greater Milwaukee Foundation.

Fair Value Measurements Using Significant
Unobservable Inputs (Level 3)

	<u>Greater Milwaukee Foundation Investment</u>
Beginning of Balance, July 1, 2021	\$152,562
Net Investment Return	(22,495)
Grants Paid to Highland Community School	<u>(4,520)</u>
Ending Balance, June 30, 2022	<u>\$125,547</u>

**HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE K - Deferred Revenue and Refundable Advances

Deferred revenue and refundable advances include funds received that exceed costs incurred for charter school and special education services, childcare and summer program deposits, MMUN deposits and adolescent trip deposits received for services for future periods.

Deferred revenue and refundable advances consist of the following as of June 30, 2022:

<u>Program</u>	<u>Amount</u>
Milwaukee Public Schools	
Charter School Contract	\$1,145,565
DCF Quality Care and Workforce	36,692
Program Fees	<u>95,358</u>
Total	<u>\$1,277,615</u>

NOTE L - Line of Credit

The Organization has available a \$100,000 line of credit. The lender has the right to cancel the line of credit as it relates to future advances at any time and to demand payment upon ninety days of notice. The line of credit bears interest at the Wall Street Journal Prime rate plus .75% with a minimum of 3%. At June 30, 2022, the rate was 5.5%. The line of credit is secured by all equipment. At June 30, 2022, the line of credit was not in use.

NOTE M - Mortgage Payable

The Organization received a construction loan for its property at 1706 W. Highland Avenue in the year ended June 30, 2021. The loan was used to refinance the prior mortgage and for building expansion and improvements. The loan requires interest only payments through August 2022. On September 1, 2022, monthly payments of \$20,081 begin which include both interest and principal. The interest rate is 5.25% through July 2027. For two subsequent 5-year periods beginning August 1, 2027 and August 1, 2032, a recalculated interest rate will be determined based on the greater of the U.S. Treasury plus 2% or 5.250%. Each of these two 5-year periods will have new payments calculated based on the recalculated interest rates. The maturity date of the loan is August 1, 2037.

Future minimum principal payments on the mortgage are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 93,344
2024	117,527
2025	123,848
2026	130,509
2027	137,528
Thereafter	<u>1,895,244</u>
Total	<u>\$2,498,000</u>

**HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE N - Capital Leases

The Organization has capital leases for four copiers extending until June 2027. The estimated fair value of the assets at lease inception was \$36,570. The economic substance of a capital lease is that the Organization is financing the acquisition of an asset through the lease and, accordingly, the asset and related obligation are recorded in the Organization's assets and liabilities. The assets are included under fixed assets and are being depreciated over the lease terms and useful lives of the assets. Depreciation expense on the capitalized assets was \$6,095 and interest expense was \$2,707 for the year ended June 30, 2022. Accumulated depreciation was \$6,095 as of the year ended June 30, 2022.

The following is a schedule by years of the future minimum lease payments required as of June 30, 2022:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 6,611	\$2,428	\$ 9,039
2024	7,208	1,831	9,039
2025	7,858	1,181	9,039
2026	8,566	473	9,039
2027	<u>748</u>	<u>5</u>	<u>753</u>
Total	<u>\$30,991</u>	<u>\$5,918</u>	<u>\$36,909</u>

NOTE O - Net Assets

Board designated net assets consist of the following as of June 30, 2022:

Building Reserve Fund	<u>\$602,863</u>
Total	<u>\$602,863</u>

Net assets with donor restrictions consist of the following as of June 30, 2022:

Greater Milwaukee Foundation	
Beneficial Interest	\$125,547
School Expansion	145,902
Highland Family Fund	11,801
Other Purpose Restrictions	<u>12,235</u>
Total	<u>\$295,485</u>

NOTE P - School Contract

The Organization has a non-instrumentality charter school contract with Milwaukee Public Schools extending through June 30, 2025.

HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE Q - Revenue from Contracts with Customers

Program Fee Income

The Organization receives program fee income for its toddler, before and after-school, C.H.E.C.K. and summer programs. Program fee income is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for services provided. The Organization bills families weekly for services. Revenue is recognized as the performance obligations are satisfied. Performance obligations are considered to be satisfied during the period of time services are performed and are recognized based on the days of service.

Beginning Deferred Revenue	\$ 71,982
Cash Collected	682,678
Program Fee Revenue Recognized	<u>(659,302)</u>
Ending Deferred Program Fees	<u>\$ 95,358</u>

NOTE R - Donated Goods and Services

The Organization received donated program supplies during the year which are recorded at their estimated value in the financial statements as revenue and expenses. The estimated value is determined using the price to purchase similar goods and services. The donated goods are valued at \$19,470 and were used in the Organization's Montessori school program and fundraisers.

The Organization also is the recipient of volunteer services that are excluded from the financial statements. Those services include the time spent by board of directors and parent board for fundraising and classroom volunteer support.

NOTE S - Retirement Plan

The Organization started matching contributions to employee retirement plans through a 401(k) defined contribution plan effective July 1, 2017. To be eligible, employees must be 18 years old and complete 160 hours of service in a two-month period. In addition, employees shall be employed on the last day of the plan year to receive the employer provided match which is paid out after the plan year. The Organization matches up to 2.5% of an employee's salary. Contributions accrued for the plan year ended June 30, 2022, were \$33,402 and retirement expense was \$35,297 for the year then ended.

HIGHLAND COMMUNITY SCHOOL, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE T - Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. Management has reviewed all tax positions recognized in previously filed tax returns and those expected to be taken in future tax returns. As of June 30, 2022, the Organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Organization does not anticipate any significant changes to unrecognized income tax benefits over the next year.

NOTE U - Subsequent Events

The Organization has evaluated events and transactions occurring after June 30, 2022, through September 28, 2022, the date the financial statements were available to be issued, for possible adjustments to the financial statements or disclosures. The Organization has determined that the following subsequent event needs to be disclosed.

Beginning around March 2020, the COVID-19 virus was declared a global pandemic. The virus continues to spread causing an uncertainty around the impact to future in-person programming and to volatility of world investment and credit markets. No adjustments have been made to these financial statements as a result of this uncertainty.

HIGHLAND COMMUNITY SCHOOL, INC.
SCHEDULE OF OPERATING REVENUE WITHOUT DONOR RESTRICTIONS AND EXPENSES BY PROGRAM
FOR THE YEAR ENDED JUNE 30, 2022
(With Summarized Totals for the Year Ended June 30, 2021)

	Charter School Program	Toddler	After School	C.H.E.C.K. Program	Before School	Summer School	General	2022 Total	2021 Total
REVENUE									
Milwaukee Public Schools									
Charter Contract	\$ 3,864,420	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 3,864,420	\$ 3,885,706
Charter Change in Refundable Advance	(401,320)	---	---	---	---	---	---	(401,320)	(214,131)
Title I	195,035	---	---	---	---	---	---	195,035	173,023
Special Education	182,564	---	---	---	---	---	---	182,564	161,923
Common School Fund	11,610	---	---	---	---	---	---	11,610	10,892
ESSER	503,567	---	---	---	---	---	---	503,567	166,811
GEER	---	---	---	---	---	---	---	---	23,390
Grants	5,704	49,605	35,245	13,481	1,525	5,899	25,000	136,459	67,148
Paycheck Protection Program	---	---	---	---	---	---	---	---	621,505
Corporation and Individual Contributions	4,272	---	---	---	---	---	31,736	36,008	32,121
Program Fee Income	---	196,968	228,402	106,803	45,477	81,652	---	659,302	25,420
Student Activity Revenue	17,283	---	18,612	---	---	20	23,070	58,985	21,131
Fundraising Income	---	---	---	---	---	---	20,540	20,540	773
Fundraising Expenses	---	---	---	---	---	---	(12,891)	(12,891)	(170)
Donated Goods and Services	19,470	---	---	---	---	---	---	19,470	16,268
Other Revenue	---	---	---	---	---	---	15	15	---
Net Assets Released from Restrictions	1,092	---	---	---	---	---	6,262	7,354	59,904
Total Revenue	\$ 4,403,697	\$ 246,573	\$ 282,259	\$ 120,284	\$ 47,002	\$ 87,571	\$ 93,732	\$ 5,281,118	\$ 5,051,714
EXPENSES									
Salaries	\$ 2,441,609	\$ 160,146	\$ 132,327	\$ 64,695	\$ 7,288	\$ 65,467	\$ 119,551	\$ 2,991,083	\$ 2,954,960
Employee Benefits	459,510	28,297	17,234	11,564	1,156	11,207	13,100	542,068	442,695
Retirement Expense	28,802	---	---	38	---	---	6,457	35,297	35,239
Payroll Taxes	185,287	12,331	10,393	4,955	555	5,124	23,288	241,933	240,449
Meal Program	4,244	3,555	590	---	---	1,153	---	9,542	1,106
Classroom, Library and Program Supplies	230,964	12,569	5,116	5,678	---	6,627	941	261,895	203,027
Field Trips and Educational Programming	22,568	---	---	---	---	---	---	22,568	4,353
Family and Community Involvement	4,773	---	---	---	---	---	7,382	12,155	8,893
Purchased Services and Professional Fees	7,735	53	66	---	---	---	18,142	25,996	47,700
Professional Development and Board Expenses	38,481	13,098	2,402	311	39	---	434	54,765	51,019
Memberships and Subscriptions	2,529	---	---	---	---	---	229	2,758	2,183
Office Supplies	2,243	---	---	---	---	---	767	3,010	3,258
Postage and Shipping	8,357	725	---	875	---	8	353	10,318	4,488
Printing	19,559	---	---	---	---	---	49	19,608	20,751
Information Technology - Software, Hardware	3,094	---	---	---	---	---	17,483	20,577	26,985
Information Technology - Contractors	96,040	---	---	---	---	---	8,880	104,920	110,189
Telephone	16,298	---	---	---	---	---	1,521	17,819	17,171
Occupancy Costs	6,404	---	1,946	---	---	---	120,180	128,530	83,955
Business Insurance	---	---	---	---	---	---	42,002	42,002	39,674
Security	61	---	---	---	---	---	1,968	2,029	1,478
Building Maintenance, Janitorial and Landscape	116,269	14,088	---	---	---	60	100,714	231,131	155,633
Depreciation	6,081	1,933	---	---	---	---	37,667	45,681	46,015
Special Education Services	208,579	---	---	---	---	---	---	208,579	167,847
MPS Administrative Fee	77,288	---	---	---	---	---	---	77,288	77,803
Interest Expense	2,821	---	---	---	---	---	48,880	51,701	51,848
Primary Fee Waivers and Bad Debts Expense	1,045	2,208	3,162	2,409	227	418	3,244	12,713	3,680
Other Expenses	545	3,656	3,962	1,465	652	1,473	1,211	12,964	2,236
Allocated Expenses	412,511	25,198	21,272	11,382	4,831	6,430	(481,624)	---	---
Total Expenses	\$ 4,403,697	\$ 277,857	\$ 198,470	\$ 103,372	\$ 14,748	\$ 97,967	\$ 92,819	\$ 5,188,930	\$ 4,804,635
CHANGE IN NET ASSETS	\$ ---	\$ (31,284)	\$ 83,789	\$ 16,912	\$ 32,254	\$ (10,396)	\$ 913	\$ 92,188	\$ 247,079

Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Highland Community School, Inc.

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 Highland Community School, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, 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 September 28, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Highland Community School, 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 Highland Community School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Highland Community School, 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 Organization'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Community School, 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 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.


RITZ HOLMAN LLP
Certified Public Accountants

Milwaukee, Wisconsin
September 28, 2022

Independent Auditor's Report
On the Schedule of MPS Non-Instrumentality Charter School Revenues and Expenditures

We have audited the accompanying schedule of charter school revenues and expenditures (as defined in the contract date May 28, 2020 between MPS and Highland Community School, Inc.) for the year ended June 30, 2022. This schedule is the responsibility of Highland Community School's management. Our responsibility is to (1) express an opinion on this schedule based on our audit and (2) express an opinion on Highland Community School, Inc.'s compliance with the contract requirement that Highland Community School, Inc. expend MPS charter school contract revenues consistent with the provisions of the contract and the 2021-2022 charter school operating budget approved by MPS Contracted Schools Services.

We conducted the audit in accordance with generally accepted auditing standards 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 schedule of charter school revenues and expenditures is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of charter school revenues and expenditures. An audit also includes assessing the accounting principles used and significant estimates made by the management of Highland Community School, Inc. as well as the management of MPS. We believe that our audit provides a reasonable basis for our opinion.

Government Auditing Standards also require that we consider internal controls over financial reporting and compliance with requirements of laws, regulations, contracts, and grants. The management of Highland Community School, Inc. is responsible for establishing and maintaining effective internal controls. In planning and performing our audit, we considered Highland Community School, Inc.'s internal control over compliance with requirements that could have a direct and material effect on the financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule of charter school revenues and expenditures. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving control over financial reporting and its operation that we consider to be material weaknesses.

In our opinion, (1) the schedule of charter school revenues and expenditures referred to above presents fairly, in all material respects, the expenditure and revenue activities of Highland Community School, Inc. for the year ended June 30, 2022, as defined in the contract referred to in the first paragraph and (2) the expenditures reported for the year ended June 30, 2022, comply with the expenditure and annual operating budget requirements as defined in the contract referred to in the first paragraph.


RITZ HOLMAN LLP
Certified Public Accountants

September 28, 2022

HIGHLAND COMMUNITY SCHOOL, INC.
SCHEDULE OF MPS CONTRACT REVENUES AND EXPENDITURES
YEAR ENDED JUNE 30, 2022

	<u>Contract Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>			
MPS Non-Instrumentality Charter School	\$ 3,882,822	\$ 3,864,420	\$ (18,402)
Total Revenues	<u>\$ 3,882,822</u>	<u>\$ 3,864,420</u>	<u>\$ (18,402)</u>
<u>Expenditures - Instructional and Instructional Support</u>			
Salaries	\$ 1,862,372	\$ 1,638,262	\$ (224,110)
Benefits	485,000	526,152	41,152
Purchased Services	203,933	175,784	(28,149)
Materials and Equipment	66,300	50,258	(16,042)
Total Expenditures - Instructional and Instructional Support	<u>\$ 2,617,605</u>	<u>\$ 2,390,456</u>	<u>\$ (227,149)</u>
<u>Expenditures - Non-Instructional Support</u>			
Salaries	\$ 399,312	\$ 334,806	\$ (64,506)
Benefits	148,021	165,414	17,393
Purchased Services	314,566	321,200	6,634
Non-Instructional Materials and Equipment	373,318	215,409	(157,909)
Insurance	30,000	35,815	5,815
Total Expenditures - Non-Instructional Support	<u>\$ 1,265,217</u>	<u>\$ 1,072,644</u>	<u>\$ (192,573)</u>
Total Expenditures	<u>\$ 3,882,822</u>	<u>\$ 3,463,100</u>	<u>\$ (419,722)</u>
Revenues in Excess of Expenditures and Increase to Refundable Advances	<u>\$ ---</u>	<u>\$ 401,320</u>	<u>\$ 401,320</u>

September 28, 2022

To the Board of Directors
Highland Community School, Inc.

We have audited the financial statements of Highland Community School, Inc. for the year ended June 30, 2022, and have issued our report thereon dated September 28, 2022. Professional standards require that we provide you with the information about our responsibilities under *Generally Accepted Auditing Standards* and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 30, 2022.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Highland Community School, Inc. are described in Note A to the financial statements. The Organization's financial statements include implementation of *Accounting Standards Update 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, effective for years beginning after June 15, 2021. The amendments in this update are required and provide new presentation and disclosure requirements about contributed nonfinancial assets to nonprofits, including additional disclosure requirements for recognized contributed services. Contributed nonfinancial assets is now required to be reported as a separate line in the statement of activities. A financial statement note is now required to provide disaggregated contributed nonfinancial assets by category including: the type of contributed nonfinancial asset; qualitative information about the monetization or utilization of the nonfinancial assets; the policy about the monetization or utilization of nonfinancial assets; a description of restrictions, valuation, and the market used to determine the fair value. The amendments, required to be presented retrospectively to all periods presented, will not change the recognition and measurement requirements for those assets. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

1. Management's estimate of the expense allocation to program, management and fundraising on the statement of functional expenses is based on management's estimate of costs attributable to each function or program.
2. Management's estimate of depreciation expense is based on estimating the useful lives of the fixed assets.
3. Management's estimate of the accrual for paid time off is based on historical averages and will vary depending on individual staff circumstances.
4. Management's estimate of the allowance for uncollectible accounts is based on the Organization's previous collection history along with interpretation of the willingness and ability of debtors to pay obligations.

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To the Board of Directors
Highland Community School, Inc.
Page Two

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. An adjustment to capitalize interest of \$63,000 during the construction phase was proposed through audit fieldwork.

Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2022.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

To the Board of Directors
Highland Community School, Inc.
Page Three

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Highland Community School, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,


RITZ HOLMAN LLP
Certified Public Accountants