

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Highlands College, Inc.  
Birmingham, Alabama

We have audited the accompanying financial statements of Highlands College, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 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 College, Inc. as of June 30, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Haynes Downard LLP*

Haynes Downard LLP  
Birmingham, Alabama

November 10, 2021



**HIGHLANDS COLLEGE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2021 AND 2020**

|                                   | <b>2021</b>           | <b>2020</b>          |
|-----------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                     |                       |                      |
| Cash and cash equivalents         | \$ 3,377,862          | \$ 1,806,450         |
| Accounts receivable               | 72,340                | 57,328               |
| Contributions receivable, net     | 1,188,735             | 665,721              |
| Investments                       | 28,401,707            | 23,695,009           |
| Prepaid expenses                  | 392,125               | 352,785              |
| Property and equipment, net       | 31,236,219            | 3,729,924            |
| Contributed use of property, net  | 58,982,017            | -                    |
|                                   | <b>\$ 123,651,005</b> | <b>\$ 30,307,217</b> |
| <b>LIABILITIES AND NET ASSETS</b> |                       |                      |
| <b>Liabilities</b>                |                       |                      |
| Accounts payable                  | \$ 4,052,211          | \$ 208,185           |
| Deferred revenue                  | 145,964               | 187,662              |
| Construction loan payable         | 2,395,494             | -                    |
|                                   | 6,593,669             | 395,847              |
| <b>Net Assets</b>                 |                       |                      |
| Without donor restrictions        | 52,398,630            | 27,269,604           |
| With donor restrictions           | 64,658,706            | 2,641,766            |
|                                   | 117,057,336           | 29,911,370           |
|                                   | <b>\$ 123,651,005</b> | <b>\$ 30,307,217</b> |

See notes to financial statements.



**HIGHLANDS COLLEGE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2021**

|                                 | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>          |
|---------------------------------|---------------------------------------|------------------------------------|-----------------------|
| <b>Revenues</b>                 |                                       |                                    |                       |
| Tuition and fees                | \$ 3,477,522                          | \$ -                               | \$ 3,477,522          |
| Less scholarships and discounts | (376,260)                             | -                                  | (376,260)             |
| Net tuition and fees            | 3,101,262                             | -                                  | 3,101,262             |
| Contributions and support       | 26,560,616                            | 2,682,186                          | 29,242,802            |
| In-kind contributions           | 1,347,500                             | 62,077,183                         | 63,424,683            |
| Rental income                   | 980,780                               | -                                  | 980,780               |
| Net investment income           | 2,853,961                             | 352,737                            | 3,206,698             |
| Other income                    | 63,012                                | -                                  | 63,012                |
| Releases from restrictions      | 3,095,166                             | (3,095,166)                        | -                     |
| Total revenues                  | 38,002,297                            | 62,016,940                         | 100,019,237           |
| <b>Expenses</b>                 |                                       |                                    |                       |
| Academic                        | 7,167,627                             | -                                  | 7,167,627             |
| Management and general          | 4,153,891                             | -                                  | 4,153,891             |
| Advancement                     | 1,551,753                             | -                                  | 1,551,753             |
| Total expenses                  | 12,873,271                            | -                                  | 12,873,271            |
| <b>Change in Net Assets</b>     | 25,129,026                            | 62,016,940                         | 87,145,966            |
| Net assets, beginning of year   | 27,269,604                            | 2,641,766                          | 29,911,370            |
| Net assets, end of year         | <u>\$ 52,398,630</u>                  | <u>\$ 64,658,706</u>               | <u>\$ 117,057,336</u> |

See notes to financial statements.



**HIGHLANDS COLLEGE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                                 | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>         |
|---------------------------------|---------------------------------------|------------------------------------|----------------------|
| <b>Revenues</b>                 |                                       |                                    |                      |
| Tuition and fees                | \$ 4,092,336                          | \$ -                               | \$ 4,092,336         |
| Less scholarships and discounts | (248,590)                             | -                                  | (248,590)            |
| Net tuition and fees            | 3,843,746                             | -                                  | 3,843,746            |
| Contributions and support       | 8,529,337                             | 2,005,474                          | 10,534,811           |
| In-kind contributions           | 1,347,500                             | -                                  | 1,347,500            |
| Rental income                   | 817,163                               | -                                  | 817,163              |
| Net investment income           | 655,675                               | 41,852                             | 697,527              |
| Other income                    | 61,451                                | -                                  | 61,451               |
| Releases from restrictions      | 24,160                                | (24,160)                           | -                    |
| Total revenues                  | 15,279,032                            | 2,023,166                          | 17,302,198           |
| <b>Expenses</b>                 |                                       |                                    |                      |
| Academic                        | 5,084,784                             | -                                  | 5,084,784            |
| Management and general          | 2,380,534                             | -                                  | 2,380,534            |
| Advancement                     | 809,592                               | -                                  | 809,592              |
| Total expenses                  | 8,274,910                             | -                                  | 8,274,910            |
| <b>Change in Net Assets</b>     | 7,004,122                             | 2,023,166                          | 9,027,288            |
| Net assets, beginning of year   | 20,265,482                            | 618,600                            | 20,884,082           |
| Net assets, end of year         | <u>\$ 27,269,604</u>                  | <u>\$ 2,641,766</u>                | <u>\$ 29,911,370</u> |

See notes to financial statements.



**HIGHLANDS COLLEGE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2021**

|                               | <b>Academic</b>     | <b>Management<br/>and General</b> | <b>Advancement</b>  | <b>Total</b>         |
|-------------------------------|---------------------|-----------------------------------|---------------------|----------------------|
| Rent expense in-kind          | \$ 2,665,599        | \$ 1,332,800                      | \$ 444,267          | \$ 4,442,666         |
| Salaries and related          | 1,378,855           | 2,298,093                         | 449,903             | 4,126,851            |
| Supplies, services, and other | 569,916             | 341,949                           | 597,233             | 1,509,098            |
| Apartment leases              | 1,276,948           | -                                 | -                   | 1,276,948            |
| Student auxiliary             | 796,082             | -                                 | -                   | 796,082              |
| Interest expense              | 160,611             | 80,306                            | 26,769              | 267,686              |
| Professional fees             | 137,379             | 68,689                            | 22,896              | 228,964              |
| Bad debt expense              | 118,131             | -                                 | -                   | 118,131              |
| Depreciation                  | 64,106              | 32,054                            | 10,685              | 106,845              |
|                               | <u>\$ 7,167,627</u> | <u>\$ 4,153,891</u>               | <u>\$ 1,551,753</u> | <u>\$ 12,873,271</u> |

See notes to financial statements.



**HIGHLANDS COLLEGE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

|                               | <u>Academic</u>     | <u>Management<br/>and General</u> | <u>Advancement</u> | <u>Total</u>        |
|-------------------------------|---------------------|-----------------------------------|--------------------|---------------------|
| Rent expense in-kind          | \$ 1,212,750        | \$ 94,325                         | \$ 40,425          | \$ 1,347,500        |
| Salaries and related          | 1,104,601           | 1,841,003                         | 379,536            | 3,325,140           |
| Supplies, services, and other | 569,106             | 341,463                           | 355,050            | 1,265,619           |
| Apartment leases              | 1,141,938           | -                                 | -                  | 1,141,938           |
| Student auxiliary             | 663,749             | -                                 | -                  | 663,749             |
| Interest expense              | -                   | -                                 | -                  | -                   |
| Professional fees             | 159,121             | 79,561                            | 26,520             | 265,202             |
| Bad debt expense              | 185,154             | -                                 | -                  | 185,154             |
| Depreciation                  | 48,365              | 24,182                            | 8,061              | 80,608              |
|                               | <u>\$ 5,084,784</u> | <u>\$ 2,380,534</u>               | <u>\$ 809,592</u>  | <u>\$ 8,274,910</u> |

See notes to financial statements.



**HIGHLANDS COLLEGE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

|  | <u>2021</u>         | <u>2020</u>         |
|--|---------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>  |                     |                     |
| Change in net assets   | \$ 87,145,966       | \$ 9,027,288        |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: |                     |                     |
| Contributed use of property  | (59,055,777)        | -                   |
| Contributions for endowment  | (2,053,461)         | (1,315,593)         |
| Net realized and unrealized gain on investments  | (2,639,385)         | (212,415)           |
| Depreciation   | 106,845             | 80,608              |
| Amortization - construction loan issuance costs  | 75,197              | -                   |
| Amortization - discount of promised use of property  | 73,760              | -                   |
| Increase in allowance for uncollectible contributions receivable                           | 72,000              | 122,000             |
| Decrease in allowance for doubtful accounts  | -                   | (183)               |
| Changes in assets and liabilities that (used) provided cash:                               |                     |                     |
| Accounts receivable  | (15,012)            | 36,928              |
| Contributions receivable   | (595,014)           | (787,721)           |
| Prepaid expenses   | (39,340)            | (27,067)            |
| Accounts payable   | 3,844,026           | 186,856             |
| Deferred revenues  | (41,698)            | 65,499              |
| Net cash provided by operating activities  | <u>26,878,107</u>   | <u>7,176,200</u>    |
| <b>Cash Flows from Investing Activities</b>  |                     |                     |
| Purchase of investments  | (2,067,313)         | (4,985,111)         |
| Purchase of property and equipment   | <u>(27,613,140)</u> | <u>(2,686,881)</u>  |
| Net cash (used in) investing activities  | (29,680,453)        | (7,671,992)         |
| <b>Cash Flows from Financing Activities</b>  |                     |                     |
| Proceeds from construction loan  | 21,620,297          | -                   |
| Payments on construction loan  | (19,300,000)        | -                   |
| Contributions received for endowment   | <u>2,053,461</u>    | <u>1,315,593</u>    |
| Net cash provided by financing activities  | <u>4,373,758</u>    | <u>1,315,593</u>    |
| <b>Change in Cash and Cash Equivalents</b>   | 1,571,412           | 819,801             |
| Cash and cash equivalents, beginning of year   | <u>1,806,450</u>    | <u>986,649</u>      |
| Cash and cash equivalents, end of year   | <u>\$ 3,377,862</u> | <u>\$ 1,806,450</u> |
| <b>Supplemental Disclosure of Cash Flow Information</b>                                    |                     |                     |
| Non-cash financing of issuance costs on construction loan                                  | <u>\$ 563,978</u>   | <u>\$ -</u>         |

See notes to financial statements.

