
DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020



DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

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TABLE OF CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1
<u>CONSOLIDATED FINANCIAL STATEMENTS</u>	
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	8
<u>SUPPLEMENTAL INFORMATION</u>	
Consolidating Statement of Financial Position	20
Consolidating Statement of Activities	21
Schedule of Compensation, Benefits, and Other Payments to Agency Head	22
<u>INDEPENDENT AUDITORS' 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</u>	23
<u>REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE</u>	25

TABLE OF CONTENTS (continued)

<u>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	27
<u>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	28
<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u>	29
<u>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</u>	33

INDEPENDENT AUDITORS' REPORT

To the Board of Directors for
Discovery Health Sciences Foundation, Inc.
Kenner, Louisiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Discovery Health Sciences Foundation, Inc. (a nonprofit organization) (the Organization) which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Discovery Health Sciences Foundation, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

As discussed in Note 13 of the consolidated financial statements, the Organization may be impacted by disruptions in the economy and business operations associated with the coronavirus (COVID-19) pandemic. The Organization expects this matter may negatively impact its activities, changes in net assets and cash flows. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position, consolidating statement of activities, and schedule of compensation, benefits, and other payments to agency head are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 October 15, 2020, on our consideration of the Organization'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 the Organization'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 the Organization's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
October 15, 2020

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

CURRENT ASSETS

Cash	\$ 3,838,440
Accounts receivable	842,271
Prepaid expenses	204,696
	4,885,407
Total current assets	4,885,407

NONCURRENT ASSETS

Property and equipment, net	40,403,381
Cash and cash equivalents restricted for construction and debt service	8,516,436
Deposits	76,829
Deferred compensation investments	202,310
	8,795,575
Total noncurrent assets	8,795,575
Total assets	\$ 54,084,363

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 3,803,117
Accrued salaries and benefits	720,575
Obligations under capital leases - current portion	284,185
Bonds payable, net - current portion	125,000
Student activity liability	66,592
	4,999,469
Total current liabilities	4,999,469

NONCURRENT LIABILITIES

Obligations under capital leases - noncurrent portion	739,035
Bonds payable, net - noncurrent portion	42,653,737
Deferred compensation liability	202,310
	43,595,082
Total noncurrent liabilities	43,595,082
Total liabilities	48,594,551

NET ASSETS

Without donor restrictions	5,449,047
With donor restrictions	40,765
	5,489,812
Total net assets	5,489,812
Total liabilities and net assets	\$ 54,084,363

The accompanying notes are an integral part of this consolidated financial statement.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Per pupil support (Minimum Foundation Program)	\$ 18,323,651	\$ -	\$ 18,323,651
Federal grants	999,941	-	999,941
Tuition	1,150	-	1,150
Fundraising revenue	149,820	-	149,820
Contributions and donations	53,777	34,489	88,266
Income from meals	106,129	-	106,129
Student activities and fees	547,190	-	547,190
Interest income	4,007	-	4,007
Paycheck Protection Program income	2,181,500	-	2,181,500
Net assets released from restrictions	65,570	(65,570)	-
	<u>22,432,735</u>	<u>(31,081)</u>	<u>22,401,654</u>
Expenses:			
Program Services	10,760,289	-	10,760,289
Total program services	<u>10,760,289</u>	<u>-</u>	<u>10,760,289</u>
Support services:			
Management and general	8,098,682	-	8,098,682
Fundraising	707,227	-	707,227
Total support services	<u>8,805,909</u>	<u>-</u>	<u>8,805,909</u>
Total expenses	<u>19,566,198</u>	<u>-</u>	<u>19,566,198</u>
Change in net assets	2,866,537	(31,081)	2,835,456
<u>NET ASSETS AT BEGINNING OF YEAR</u>	<u>2,582,510</u>	<u>71,846</u>	<u>2,654,356</u>
<u>NET ASSETS AT END OF THE YEAR</u>	<u>\$ 5,449,047</u>	<u>\$ 40,765</u>	<u>\$ 5,489,812</u>

The accompanying notes are an integral part of this consolidated financial statement.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Support			Total
	Program	Management & General	Fundraising	
Advertising and recruiting	\$ -	\$ 28,724	\$ -	\$ 28,724
Athletics	47,382	-	-	47,382
Audit and accounting services	-	45,355	-	45,355
Benefits	1,490,888	536,047	77,573	2,104,508
Cleaning services	-	425,045	-	425,045
Communications	-	33,962	70,703	104,665
Debt service and miscellaneous	-	14,028	-	14,028
Depreciation	1,124,796	-	-	1,124,796
Dues and fees	6,478	34,997	-	41,475
Field trips	22,142	-	-	22,142
Food service management	-	386,083	-	386,083
Insurance	-	323,355	-	323,355
Interest	-	711,084	-	711,084
Legal services	-	284,985	-	284,985
Materials and supplies	239,454	196,912	29,592	465,958
Minimum Foundation Program fees	-	418,506	-	418,506
Other miscellaneous	-	15,765	-	15,765
Printing and binding	-	613	-	613
Purchased professionals and technical services	13,558	280,800	91,240	385,598
Rentals	146,611	116,440	-	263,051
Repairs and maintenance services	-	178,283	-	178,283
Salaries and benefits	7,118,866	2,719,546	372,012	10,210,424
Technology	160,519	11,019	66,107	237,645
Textbooks	321,110	-	-	321,110
Transportation	-	1,116,350	-	1,116,350
Travel	35,435	27,765	-	63,200
Tuition	33,050	-	-	33,050
Utilities	-	193,018	-	193,018
Total expenses	\$ 10,760,289	\$ 8,098,682	\$ 707,227	\$ 19,566,198

The accompanying notes are an integral part of this consolidated financial statement.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 2,835,456
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	1,124,796
Amortization expense	13,998
Changes in operating assets and liabilities	
Accounts receivable	(531,279)
Prepaid expenses	(50,128)
Deposits	2,900
Accounts payable and accrued expenses	(31,209)
Accrued salaries and benefits	127,154
Student activity liability	(7,011)
	<u>3,484,677</u>
Net cash provided by operating activities	<u>3,484,677</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(23,798,629)
Net cash used in investing activities	(23,798,629)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payment of capital lease obligation	(339,749)
Net cash used in financing activities	(339,749)
Net decrease in cash and cash equivalents	(20,653,701)
Cash and cash equivalents, beginning of year	33,008,577
Cash and cash equivalents, end of year	\$ 12,354,876

RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION:

Cash	\$ 3,838,440
Cash and cash equivalents restricted for construction and debt service	8,516,436
Total cash and cash and cash equivalents restricted for construction and debt service	\$ 12,354,876

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for interest	\$ 711,085
Noncash investing and financing transaction	
Net capitalized interest in construction in progress related to bond issuance	\$ 1,587,589
Change in accounts and retainage payable related to property and equipment	\$ 2,735,179

The accompanying notes are an integral part of this consolidated financial statement.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

The accompanying consolidated financial statements include the accounts of Discovery Health Sciences Foundation, Inc. (Discovery) and Friends of Discovery Health Sciences Foundation, Inc. (Friends) (collectively, the Organization).

Discovery, a nonprofit corporation organized on a non-stock basis, was incorporated in September 2011 for the purpose of operating charter schools located in Jefferson Parish, Louisiana which provide student instruction and activities. Discovery was created to provide a rigorous learning environment where students achieve academically, develop intellectual curiosity, and practice environmental responsibility while exploring health and science topics and careers. Discovery began operations in August 2013. Discovery's charter schools are a component unit of the Jefferson Parish Public School System (JPPSS).

In June 2012, the JPPSS authorized Discovery to operate a Type 1 Charter School, Kenner Discovery Health Sciences Academy (KDHSA). The initial five (5) year charter expired June 2018. In December 2017, the JPPSS renewed the charter for ten (10) years, expiring June 2028.

In March 2019, the JPPSS authorized Discovery to operate a second charter school, the Dr. John Ochsner Discovery Health Sciences Academy at John Martyn campus (DJOD) effective July 1, 2020. During August 2019, Discovery's board approved a memorandum of understanding to operate the charter school in partnership with Ochsner Health System.

Friends, a nonprofit corporation organized on a non-stock basis, was incorporated in February 2017 as a supporting organization for the benefit of Discovery.

Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of Discovery, and its subsidiary, Friends. Discovery has controlling financial interest through direct ownership of a majority voting interest in Friends and has an economic interest in Friends. All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the consolidated financial statements. The consolidated financial statements of the Organization are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation of Net Assets

The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments available for current use with initial maturity of three months or less to be cash equivalents.

Cash and cash equivalents consist of both unrestricted and restricted balances. Unrestricted cash balances represent cash available for general operating purposes. Restricted cash and cash equivalents balances consist of amounts received from proceeds from a bond issuance which stated the specific use of the proceeds was for construction and debt service.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization provides for probable uncollectible amounts through a provision to bad debt expense and adjustments to valuation allowances based on its assessment of the current status of individual receivables. Balances still outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2020, management did not deem any receivables to be uncollectible; therefore, no allowance was recorded.

Property and Equipment

Property and equipment is capitalized at cost and updated for additions and retirements during the year. Donated property and equipment are recorded at fair market value as of the date received. The Organization capitalizes property and equipment with values over \$5,000 per item. Land and construction-in-progress are not considered depreciable assets.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Machinery and equipment – 3-5 years

Building – 30 years

Leasehold improvements – 5-7 years

Software – the life span of the license or 3 years, whichever is shortest

Portable facilities (classrooms) – the lease term or 7 years, whichever is shortest

Capitalization of Interest

The Organization capitalizes interest expense on qualifying construction-in-progress expenditures based on the interest cost of the Organization's borrowings less any interest earned on related interest-bearing investments acquired with proceeds of the tax-exempt borrowings. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled \$1,587,589 net of \$254,445 in investment income for the year ended June 30, 2020.

Income Taxes

Discovery and Friends are not-for-profit corporations organized under the laws of the State of Louisiana. They are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualify as organizations that are not private foundations as defined in Section 509(a) of the Code.

The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Revenue and Revenue Recognition

The Organization utilizes the guidance in Accounting Standard Update (“ASU”) 2018-08 in the assessment of whether a revenue is an exchange transaction (contract) or contribution (non-contract) and considers factors including commensurate value received, reciprocity, and donor-imposed conditions.

Revenues from federal and state grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has met the performance requirements and/or incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position. The Organization recognized as revenue all funds related to these grants during the year ended June 30, 2020.

Revenue from other sources, including student activities and fees, tuition, and income from meals are recorded and recognized as revenue in the period in which the Organization provides the service at the amount that reflects the consideration to which the Organization expects to be entitled for providing the service or good.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue from performance obligations satisfied over time is recognized based on actual time incurred in relation to the total expected period of providing the service, which is deemed to be the school year, which is simultaneous with the fiscal year. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to student activities and fees and tuition. The Organization measures the performance obligation throughout the school year. Revenue for performance obligations satisfied at a point in time, which include mainly income from meals and are generally immaterial, are recognized when services are provided. The Organization determines the transaction price based on standard charges for goods or services provided to students, which are predetermined by management. Fees are generally nonrefundable, and total refunds issued annually are considered negligible.

Contributed Services

The value of contributed services is recorded, at fair value, as revenues and support and expenses in the period received, provided there is an objective basis for measurement of the value of such services and they are significant, require specialized skills and form an integral part of the Organization’s efforts. The Organization did not recognize donated services during the year ended June 30, 2020.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Contributed Services (continued)

In addition, the Organization receives services donated by parents and community members in carrying out the Organization's mission. The value of these services is not recognized in the accompanying consolidated financial statements as they do not meet the criteria for recognition under U.S. GAAP.

Functional Expenses

The costs of providing the program services and other activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated on a reasonable basis that is consistently applied. When possible, expenses are first allocated by direct identification and then allocated to various programs and functions, if an expenditure benefits more than one program or function. The expenses that are allocated are allocated on the basis of estimates of time and effort.

Compensated Absences

Employees of the Organization receive between ten (10) and twelve (12) days of paid time off (PTO) (a combination of vacation time, sick time, and holiday time) according to their classification. Unused PTO balances, up to ten (10) days, are carried over into the following year with a maximum of twenty (20) days carried at any one time per employee.

Student Activity Liability

Student activity liability represents deposits made for various student activity programs. The Organization considers all student activity funds and unexpended income from these funds to be funds held in custody.

Deferred Compensation Investments

A deferred compensation investment account is sponsored by the Organization in order to maintain a 457(b) Deferred Compensation Plan for its Executive Director. The Organization contributes the maximum allowed to the plan, as required by the Executive Director's contract.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Standard

Effective July 1, 2019, the Organization adopted ASU No. 2018-08 Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The implementation of this new standard did not have a material impact on the measurement or recognition of revenue.

Accounting Pronouncements Issued but Not Yet in Effect

In February 2016, ASU 2016-02, *Leases* was issued. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet as well as additional disclosures. In July 2018, ASU 2018-11, *Leases (Topic 842): Targeted Improvements* was issued, to simplify the lease standard's implementation. The amended guidance relieves businesses and other organizations of the requirement to present prior comparative years' results when they adopt the new lease standard. Instead of recasting prior year results using the new accounting when they adopt the guidance, companies can choose to recognize the cumulative effect of applying the new standard to leased assets and liabilities as an adjustment to the opening balance of retained earnings. On June 3, 2020, the effective date of this standard was deferred for certain entities. This standard will be effective for the Organization for annual periods beginning after December 15, 2021. The Organization is currently assessing the impact of this pronouncement on the consolidated financial statements.

2. Liquidity and Availability

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. Expenditures are generally met within 30 days utilizing the financial resources the Organization has available. In addition, the Organization operates with a budget to monitor sources and uses of funds throughout the year.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Liquidity and Availability (continued)

The following presents the Organization's financial assets and those available to meet general expenditures within one year at June 30, 2020

Financial assets at year end:

Cash and cash equivalents	\$ 12,354,876
Accounts receivable	842,271
Deposits	76,829
Deferred compensation investments	202,310
Total financial assets	<u>13,476,286</u>

Less amounts not available to be used within one year
for general expenditures

Deposits	76,829
Deferred compensation investments	202,310
Cash and cash equivalents from bond issuance restricted for construction and debt service	<u>8,516,436</u>

Financial assets available for general expenditures within one year \$ 4,680,711

3. Property and Equipment

Property and equipment consist of the following as of June 30, 2020:

Building and improvements	\$ 42,627,913
Machinery and equipment	<u>1,907,204</u>
	44,535,117
Less accumulated depreciation	<u>(4,131,736)</u>
Property and equipment, net	<u>\$ 40,403,381</u>

Construction-in-progress consisted of preliminary building costs incurred by the Organization to build a new school building. The building was completed and placed in service in April 2020. Included in accounts payable on the consolidated statement of financial position was approximately \$3,647,000 of construction-related liabilities as of June 30, 2020.

4. Bonds Payable

In November 2018, Friends entered into a Loan Agreement with the Jefferson Parish Economic Development Commission (JEDCO) in connection with the issuance of tax-exempt revenue bonds (Series 2018A) and taxable revenue bonds (Series 2018B) for the Kenner Discovery Health Sciences Academy Project. The proceeds of the bonds will be used for (i) financing the acquisition, construction, improvement, and equipment, (ii) funding a debt service reserve fund, (iii) funding capitalized interest during construction, (iv) refunding indebtedness incurred by Friends and Discovery, and (v) paying the costs of issuance of the Series 2018A and 2018B bonds. The Series 2018A bonds were issued at a discount of \$477,478 and issuance costs associated with the bonds were \$1,567,783.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Bonds Payable (continued)

Outstanding bonds consisted of the following at June 30, 2020:

Tax-exempt revenue bonds Series 2018A, include term bonds that are broken down into increments of \$6,390,000 that bears interest at 4.8%, \$13,100,000 that bears interest at 5.5%, and \$24,405,000 that bears interest at 5.625%.	\$ 43,895,000
Taxable revenue bonds Series 2018B bearing interest at 6.125%.	915,000
Unamortized discount on bonds	(477,478)
Unamortized issuance costs	(1,553,785)
	<u>\$ 42,778,737</u>

The Series 2018A bonds are subject to mandatory sinking fund redemption beginning June 15, 2021, and continuing through maturity on June 15, 2048. The Series 2018A bonds are subject to optional redemption June 15, 2028, at a redemption price of 100% of the principal amount redeemed, plus accrued interest. The Series 2018 bonds are subject to mandatory sinking fund redemption beginning June 15, 2021 and continuing through maturity on June 15, 2024.

Amortization expense related to bond issuance costs incurred by Friends was \$13,998 for the year ended June 30, 2020.

Friends has granted a security interest in all of its presently existing and future accounts and revenues, as defined, as security for its obligation under the Loan Agreement.

The principal obligations on indebtedness will mature as follows for the years ending June 30:

<u>Year Ended June 30,</u>	<u>Series 2018A</u>	<u>Series 2018B</u>
2021	\$ 50,000	\$ 75,000
2022	250,000	265,000
2023	500,000	280,000
2024	525,000	295,000
2025	920,000	-
Thereafter	41,650,000	-
	<u>\$ 43,895,000</u>	<u>\$ 915,000</u>

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Capital Leases

Discovery leases modular buildings from Mobile Modular Management Corporation under a capital lease. The economic substance of the lease is that Discovery is financing the acquisition of the assets through the lease; and, accordingly, it is recorded in Discovery's assets and liabilities.

Friends leases modular buildings from Vanguard Modular Building Systems under a capital lease. The economic substance of the lease is that Friends is financing the acquisition of the assets through the lease; and, accordingly, it is recorded in Friends' assets and liabilities.

The following is an analysis of the leased assets included in property and equipment at June 30, 2020:

Buildings	\$ 2,038,512
Equipment	87,762
Less: Accumulated depreciation	<u>(1,089,826)</u>
	<u><u>\$ 1,036,448</u></u>

Amortization of assets held under capital leases is included with depreciation expense.

The following is a schedule by years of future minimum payments required under the leases together with their present value as of:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 336,363
2022	255,768
2023	255,768
2024	255,768
2025	<u>42,629</u>
Total Minimum Lease Payments	1,146,296
Less: Amount Representing Interest	<u>(123,076)</u>
Present Value of Minimum Lease Payments	<u><u>\$ 1,023,220</u></u>

6. Retirement Plans

Substantially all employees of the Organization are participants of an employer sponsored Safe Harbor 401(k) plan (the Plan). Covered employees may elect to contribute a portion of their salaries to the Plan. The Organization's matching contribution to the Plan is equal to 100% of the participant's contribution that do not exceed 3% of the participant's compensation, plus 50% of the participant's contribution that exceeds 3% of the participant's compensation, not to exceed 5% of the participant's compensation. The Organization made \$314,228 in contributions to the Plan during the year ended June 30, 2020.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Retirement Plans (continued)

The Organization also sponsors a 457(b) Deferred Compensation Plan for its Executive Director. The Organization contributes the maximum allowed to the Plan, as required by the Executive Director's contract. This contribution totaled \$19,500 during the year ended June 30, 2020. The plan's assets and liabilities reflected on the consolidated statement of financial position at June 30, 2020, totaled \$202,310. The plan's assets are fully invested in mutual funds and money market funds, the cost of which approximates fair value at June 30, 2020.

7. Concentrations and Credit Risk

Discovery's primary source of funding is through the State Public School Fund from JPPSS and the Louisiana Department of Education (LDOE) based on eligible students in attendance on a monthly basis. Discovery received approximately 85% of its total revenue flow through funds from JPPSS for the year ended June 30, 2020.

The Organization has concentrated its credit risk for cash by maintaining deposits in financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Organization has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

8. Commitments and Contingencies

The continuation of the Organization is contingent upon legislative appropriation or allocation of funds necessary to fulfill the requirements of the charter contract with the JPPSS. If the legislature fails to appropriate sufficient monies to provide for the continuation of the charter contract, or if such appropriation is reduced by veto of the Governor or by any means provided in the appropriations act to prevent the total appropriation for the year from exceeding revenues for that year, or for any other lawful purpose, and the effect of such reduction is to provide insufficient monies for the continuation of the charter contract, the contract shall terminate on the date of the beginning of the first fiscal year for which funds are not appropriated.

All funds received from the Louisiana Department of Education, United States Department of Education, or other state or federal agencies are to be used for educational purposes as described in the Organization's charter agreement and grant awards. These agencies, however, have a reversionary interest in these funds, as well as any assets acquired with these funds. Should the charter agreement not be renewed, those funds and assets will transfer to the appropriate agency.

9. Net Assets with Donor Restrictions

As of June 30, 2020, net assets with donor restrictions included \$40,765 restricted by donors for specific programs, purposes, student activities, or to assist specific departments of Discovery. None of the net assets with donor restrictions are time-restricted by donors.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Operating Leases

The Organization entered into an operating lease for the rental of its main school building payable to the JPPSS in the amount of \$107 per student per year. The lease was for five (5) years commencing on July 1, 2013 and ended on June 30, 2018. During June 2018, the lease was renewed for ten (10) years commencing on July 1, 2018 and ending on June 30, 2028. Future minimum commitments under the operating lease agreements are estimated to be \$222,453 at June 30, 2020.

The Organization entered into two operating leases as part of cooperative endeavor agreements with the City of Kenner for use of the Kenner Rivertown Exhibition Hall and the Westgate Playground Tennis Court. Both leases are effective until terminated. Both leases are at no charge, and; therefore, have no minimum lease payment obligation.

During March 2019, the Organization entered into an operating lease for the rental of another school building payable to the JPPSS in the amount of \$107 per student per year. The lease is for two (2) years commencing on July 1, 2019 and ending on June 30, 2021. Future minimum commitments under the operating lease agreements are not yet estimable.

11. Cooperative Endeavor Lease Agreement

The Organization entered into a cooperative endeavor lease agreement on November 23, 2016 at no charge to the Organization with the JPPSS onto which the JPPSS leased to the Organization, certain real property (land) for the purpose of constructing, developing, and operating on the land a public charter school facility, including infrastructure, parking, and other related facilities. The Organization has certain covenants regarding the construction and operations of the land on behalf of JPPSS. On May 12, 2017, Discovery sublet the land to Friends. The lease and sublease terms will run until October 31, 2115.

12. Related Parties

Friends and Discovery entered into a facilities lease agreement dated November 1, 2018 pursuant to the loan agreement and Series 2018 bonds discussed in Note 4. The leased facilities are currently under construction on the land which is sublet by Friends from Discovery to be used as school facilities. The lease calls for payments to Friends in monthly amounts sufficient for Friends to make timely payments of principal and interest payments on the Series 2018 Bonds. Lease payments began in August 2019 and run through June 2048.

Friends and Vanguard Modular Building Systems (Vanguard) entered into a lease agreement dated September 2, 2017, wherein Vanguard agreed to lease to Friends certain modular buildings (the Buildings). The Buildings are installed on the land and are sublet by Friends to Discovery to be used as school facilities. The lease between Friends and Discovery for the Buildings is for a term of 99 years and calls for monthly rent sufficient to cover the debt service and lease payment by Friends. Rent expense incurred by Discovery and earned by Friends as part of the sublease totaled \$304,560 during the year ended June 30, 2020. Prepaid rent by Discovery and deferred revenue for Friends under this sublease agreement total \$203,300 as of June 30, 2020, and are included in due to/from related party on the consolidating statement of financial position.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Related Parties (continued)

Other amounts payable by Friends to Discovery totaled \$1,864,648 at June 30, 2020 and are included in Due to/from Related Party on the consolidating statement of financial position.

All intercompany activity has been eliminated on the consolidated financial statements.

13. Outbreak of COVID-19 and Paycheck Protection Program

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic. The COVID-19 pandemic has negatively impacted the global and domestic economy and created significant volatility and disruption of financial markets. The extent of the impact of the COVID-19 pandemic on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on the Organization's donors, students, employees and vendors, all of which are uncertain and cannot be predicted.

During the year ended June 30, 2020, the Organization applied for and was approved for a \$2,181,500 loan under the Paycheck Protection Program administered by the Small Business Administration as part of the relief efforts related to COVID-19. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized. The Organization recognized the loan as an unconditional contribution, which is recorded in the consolidated statement of activities for the year ended June 30, 2020, having met the conditions for forgiveness by incurring eligible expenditures.

14. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, October 15, 2020, and determined that other than the matters regarding the outbreak of COVID-19 and the Paycheck Protection Program described in Note 13, there were no other events occurred that require additional disclosure. No events after this date have been evaluated for inclusion in the consolidated financial statements.

SUPPLEMENTAL INFORMATION

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS

	Discovery Health Sciences Foundation, Inc.	Friends of Discovery Health Sciences Foundation, Inc.	Eliminations	Total
<u>CURRENT ASSETS</u>				
Current assets				
Cash	\$ 3,824,134	\$ 14,306	\$ -	\$ 3,838,440
Accounts receivable	772,108	70,163	-	842,271
Due from related party	2,067,948	-	(2,067,948)	-
Prepaid expenses	204,696	-	-	204,696
Total current assets	<u>6,868,886</u>	<u>84,469</u>	<u>(2,067,948)</u>	<u>4,885,407</u>
<u>NONCURRENT ASSETS</u>				
Property and equipment, net	385,736	40,017,645	-	40,403,381
Cash and cash equivalents restricted for construction and debt service	-	8,516,436	-	8,516,436
Deposits	32,611	44,218	-	76,829
Deferred compensation	202,310	-	-	202,310
Total noncurrent assets	<u>234,921</u>	<u>8,560,654</u>	<u>-</u>	<u>8,795,575</u>
Total assets	<u>\$ 7,489,543</u>	<u>\$ 48,662,768</u>	<u>\$ (2,067,948)</u>	<u>\$ 54,084,363</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 134,765	\$ 3,668,352	\$ -	\$ 3,803,117
Accrued salaries and benefits	720,575	-	-	720,575
Obligations under capital leases - current portion	77,284	206,901	-	284,185
Bonds payable, net - current portion	-	125,000	-	125,000
Student activity liability	66,592	-	-	66,592
Due to related party	-	2,067,948	(2,067,948)	-
Total current liabilities	<u>999,216</u>	<u>6,068,201</u>	<u>(2,067,948)</u>	<u>4,999,469</u>
<u>NONCURRENT LIABILITIES</u>				
Obligations under capital leases - noncurrent portion	-	739,035	-	739,035
Bonds payable, net - noncurrent portion	-	42,653,737	-	42,653,737
Deferred compensation liability	202,310	-	-	202,310
Total noncurrent liabilities	<u>202,310</u>	<u>43,392,772</u>	<u>-</u>	<u>43,595,082</u>
Total liabilities	<u>1,201,526</u>	<u>49,460,973</u>	<u>(2,067,948)</u>	<u>48,594,551</u>
<u>NET ASSETS</u>				
Without donor restrictions	6,247,252	(798,205)	-	5,449,047
With donor restrictions	40,765	-	-	40,765
Total net assets	<u>6,288,017</u>	<u>(798,205)</u>	<u>-</u>	<u>5,489,812</u>
Total liabilities and net assets	<u>\$ 7,489,543</u>	<u>\$ 48,662,768</u>	<u>\$ (2,067,948)</u>	<u>\$ 54,084,363</u>

See accompanying independent auditors' report.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Discovery Health Sciences Foundation, Inc.			Friends of Discovery Health Sciences Foundation, Inc.		Eliminations		Consolidated		
	Without		Total	Without		Without		Without		Total
	Donor Restrictions	With Donor Restrictions		Donor Restrictions	Total	Donor Restrictions	Total	Donor Restrictions	With Donor Restrictions	
Revenues and support:										
Per pupil support	\$ 18,323,651	\$ -	\$ 18,323,651	\$ -	\$ -	\$ -	\$ -	\$ 18,323,651	\$ -	\$ 18,323,651
Federal grants	999,941	-	999,941	-	-	-	-	999,941	-	999,941
Tuition	1,150	-	1,150	-	-	-	-	1,150	-	1,150
Fundraising revenue	66,483	-	66,483	83,337	83,337	-	-	149,820	-	149,820
Contributions and donations	43,777	34,489	78,266	10,000	10,000	-	-	53,777	34,489	88,266
Income from meals	106,129	-	106,129	-	-	-	-	106,129	-	106,129
Student activities and fees	547,190	-	547,190	-	-	-	-	547,190	-	547,190
Rental income	-	-	-	987,149	987,149	(987,149)	(987,149)	-	-	-
Interest income	3,850	-	3,850	157	157	-	-	4,007	-	4,007
Paycheck Protection Program income	2,181,500	-	2,181,500	-	-	-	-	2,181,500	-	2,181,500
Net assets released from restrictions	65,570	(65,570)	-	-	-	-	-	65,570	(65,570)	-
Total revenues and other support	22,339,241	(31,081)	22,308,160	1,080,643	1,080,643	(987,149)	(987,149)	22,432,735	(31,081)	22,401,654
Expenses:										
Program Services:	10,061,097	-	10,061,097	699,192	699,192	-	-	10,760,289	-	10,760,289
Total program services	10,061,097	-	10,061,097	699,192	699,192	-	-	10,760,289	-	10,760,289
Support services:										
Management and general	8,174,935	-	8,174,935	910,896	910,896	(987,149)	(987,149)	8,098,682	-	8,098,682
Fundraising	680,831	-	680,831	26,396	26,396	-	-	707,227	-	707,227
Total support services	8,855,766	-	8,855,766	937,292	937,292	(987,149)	(987,149)	8,805,909	-	8,805,909
Total expenses	18,916,863	-	18,916,863	1,636,484	1,636,484	(987,149)	(987,149)	19,566,198	-	19,566,198
Change in net assets	3,422,378	(31,081)	3,391,297	(555,841)	(555,841)	-	-	2,866,537	(31,081)	2,835,456
NET ASSETS AT BEGINNING OF YEAR	2,824,874	71,846	2,896,720	(242,364)	(242,364)	-	-	2,582,510	71,846	2,654,356
NET ASSETS AT END OF THE YEAR	\$ 6,247,252	\$ 40,765	\$ 6,288,017	\$ (798,205)	\$ (798,205)	\$ -	\$ -	\$ 5,449,047	\$ 40,765	\$ 5,489,812

See accompanying independent auditors' report.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
SCHEDULE OF COMPENSATION, BENEFITS,
AND OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED JUNE 30, 2020

Agency Head Name: Dr. Patty Glaser, Chief Executive Officer

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 215,134
Benefits - insurance (FICA, Medicare, Health, Life, Disability)	18,770
Benefits - retirement	7,975
Benefits - deferred compensation	24,866
Car allowance	12,000
Cell phone	480
Reimbursements	235
	<u>\$ 279,460</u>

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS’ 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 for
Discovery Health Sciences Foundation, Inc.
Kenner, Louisiana

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 consolidated financial statements of Discovery Health Sciences Foundation, Inc. (“the Organization”) which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered The Organization’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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of The Organization’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 The Organization's consolidated 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Postlethwaite & Netterville

Metairie, Louisiana
October 15, 2020

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

To the Board of Directors
The Organization Health Sciences Foundation, Inc.
Kenner, Louisiana

Report on Compliance for Each Major Federal Program

We have audited The Organization Health Sciences Foundation, Inc.’s (The Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization’s major federal program for the year ended June 30, 2020. The Organization’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization’s major federal 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’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 its major federal program. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization’s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on

compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Metairie, Louisiana
October 15, 2020

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass- Through Grantor	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<u>United States Department Agriculture</u>			
Passed through the Louisiana Department of Agriculture:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	Unknown	\$ 86,649
National School Lunch Program	10.555	Unknown	258,766
Summer Food Service Program for Children	10.559	Unknown	25,159
Total Child Nutrition Cluster			<u>370,574</u>
Total United States Department of Agriculture			<u>370,574</u>
<u>United States Department of Education</u>			
Passed through the Jefferson Parish Public School System:			
Title I Grants to Local Education Agencies (LEAs)	84.010	S010A170018	205,851
Special Education - Grants to States (IDEA, Part B)	84.027	H027A170033	416,529
Total United States Department of Education			<u>622,380</u>
Total Expenditures of Federal Awards			<u>\$ 992,954</u>

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Discovery and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization. The Organization's reporting entity is defined in Note 1 to the consolidated financial statements for the year ended June 30, 2020.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Organization's financial statements for the year ended June 30, 2020. Such expenditures are recognized following the cost principles contained in accordance with the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Financial Statements

Federal revenues of \$999,941 are included in Revenues and Support on the Statement of Activities. Discovery recorded federal Medicaid revenues and related expense of \$6,987 that were not considered federal awards. As such, this amount was excluded from this schedule.

4. Relationship to Federal Financial Reports

Amounts reported in the Schedule agree with the amounts reported in the related federal financial reports, except for the amounts in reports submitted as of a date subsequent to June 30, 2020.

5. De Minimis Cost Rate

During the year ended June 30, 2020, Discovery did not include any expenditures related to indirect cost rate calculations and did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

(1) Summary of Independent Auditors' Results

Financial Statements

The type of report issued on the financial statements: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None noted

Noncompliance material to the financial statements noted? Yes

Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? None noted

Type of auditor's report issued on compliance for major programs: Unmodified opinion

Any audit findings which are required to be reported under the Uniform Guidance? No

Identification of major program:

Program Name	Federal CFDA#
Child Nutrition Cluster	10.553, 10.555, 10.559

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee under Section 530 of the Uniform Guidance: Yes

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

Findings Relating Compliance and Other Matters

These finding were related to matters reported in the prior year audit report, which was issued by other auditors and was dated October 14, 2019. They have been included as repeat findings as Discovery is awaiting an opinion from the Louisiana Attorney General to resolve these matters.

2020-001 Advance of Public Funds (Prior Year Finding 2019-001)

Criteria:

Article 7, Section 14 of the Louisiana State Constitution of 1974 states that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

Condition:

As reported in the prior year, funds were advanced by Discovery to Friends.

Cause:

A modular building sublease agreement between Discovery and Friends called for a fixed monthly payment of \$16,500. Payments made from Discovery to Friends did not adhere to the fixed monthly payment prescribed in the agreement. Rather, payment amounts varied, and total payments were in excess of the terms of the sublease agreement. The advances in excess of the agreement were reported as prepaid rent or interfund loans receivable on the statement of financial position.

Effect:

Based on discussion with the Louisiana Legislative Auditor, the advance of funds for the modular buildings in excess of the terms of the sublease agreement is potentially a violation of the above referenced statute.

Recommendation:

We recommend that payments be made in accordance with agreed-upon terms and submitted when goods or services are transferred. We further recommend that the organization obtain a Louisiana Attorney General opinion on matters pertaining to the advance of these funds.

Management's Response:

Note 2019-01 starts with the faulty premise that Article 7, Section 14 of the Louisiana Constitution applies to charter schools. Lease payments or advances made by Discovery to Friends cannot be a potential violation of Article 7, Section 14 of the Louisiana Constitution, because Article 7, Section 14 does not apply to charter schools like Discovery. The private non-profit corporations that are selected to operate charter schools in Louisiana are not a "state or any political subdivision" to which the prohibitions of Article 7, Section 14 apply. Even if these provisions were to apply to charter schools, the prohibition against the loan or donation of public funds is not absolute when there is a valid cooperative transaction that meets the criteria set forth by the Louisiana Supreme Court in the Cabela's case. All funds were used by Friends in support of Discovery, and Discovery received a benefit of equal or greater value than the funds received. Such reciprocal transactions meet all the criteria of Cabela's. However, to begin, qualifying this as a gratuitous giving under Art. 7, Section

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

14 goes beyond the real issue. The funds advanced are misstated in the finding due to an error on Discovery's part. The amount of the sublease from Friends to Discovery for the required modular classroom space was always intended to cover the actual cost to Friends of leasing the modular buildings plus an administrative fee to cover additional expenses. The amount listed (\$16,500) was merely a placeholder in the original draft of the sublease. Unfortunately, in our haste to get the sublease finalized and move our students into the facility being provided by Friends, the amount was not changed to include the actual cost of the Friends lease on the modular buildings, which amounts to \$21,314 per month, plus actual administrative costs. Amending the sublease to the actual costs of providing the modular buildings will ensure that the amounts provided by Discovery to Friends are not above the amount in the sublease. This mistake should have been corrected once actual costs was determined. We will amend the sublease to correct this error.

Management update for year ended June 30, 2020:

Management has completed a new Memorandum of Understanding agreement between Discovery and Friends of Discovery which further clarifies this relationship in accordance with all applicable state laws.

Management has requested an additional Opinion from the Louisiana Attorney General further clarifying the appropriateness of all transactions in accordance with applicable state law.

2020-002 Advance of Public Funds and Public Bid Law (Prior Year Finding 2019-002)

Criteria:

Article 7, Section 14 of the Louisiana State Constitution of 1974 states that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private. Louisiana R.S.17:3996 requires that public charter schools comply with Public Bid Law, R.S. 38:2211.

Condition:

As reported in the prior year, funds were borrowed by Discovery and advanced to Friends to fund construction and architectural costs prior to bond closing.

Cause:

Discovery borrowed funds from a bank under a line of credit agreement. These funds were subsequently advanced to Friends with no set terms or conditions. These advances were utilized by Friends for construction and architectural costs, the construction costs of which were not approved in a public bid process. The advances were tracked as interfund loans receivable on the statement of financial position. Discovery's principal balance of the line of credit agreement was paid off using Friends' bond proceeds.

Effect:

Based on discussion with the Louisiana Legislative Auditor, the advance of public funds for the purpose of architectural and construction prior to bond closing by Friends is potentially a violation of the above referenced statutes. In effect, transfer of funds for the construction of a building may have violated Public Bid Law.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

Recommendation:

We recommend that management follow Public Bid Law, when applicable. We recommend that the organization obtain a Louisiana Attorney General opinion on matters pertaining to the advance of these funds and the organization's applicability and adherence to the above referenced statutes.

Management's Response:

Neither Article 7, Section 14 of the Louisiana Constitution nor Louisiana Public Bid Law apply to the distribution of the funds identified in Note 2019-02. As stated in response to Note 2019-01, Article 7, Section 14 does not apply to charter schools. Further, Public Bid Law is not applicable to Friends, nor the architectural and pre-design services purchased by Friends. As noted in the Louisiana Attorney General Opinions we obtained, Public Bid Law does not apply to Friends.² Friends is a private non-profit support organization and not a "public entity" as defined in La. R.S. 38:2211(A) that would be subject to the Louisiana Public Bid Law. However, most importantly, even if it was determined that public bid law did apply there is no violation in these transactions as they were used for professional services that are not subject to the Louisiana Public Bid Law. In order to receive bond commission approval and in order to market bonds for the construction of a public charter school facility, the facility had to be completely designed and a guaranteed maximum cost established. The funds advanced by Discovery to Friends from proceeds of a Bridge Loan were for Architectural Services and pre-design services, which included surveys, soil testing and analysis, and test pilings. None of these were construction related rather they are all professional services required to enable the Architects (and their engineers) to fully plan the design of the new facility. This is the case whether it is perceived that Friends or Discovery paid for the services. Funds for construction were funded from the bond proceeds received in accordance with Application L18-112A, which fully covers the construction of the project.

Management update for year ended June 30, 2020:

Management has completed a new Memorandum of Understanding agreement between Discovery and Friends of Discovery which further clarifies this relationship in accordance with all applicable state laws.

Management has requested an additional Opinion from the Louisiana Attorney General further clarifying the appropriateness of all transactions in accordance with applicable state law.

(3) Findings and Questioned Costs relating to Federal Awards:

Not Applicable.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2019

2019-001 Advance of Public Funds and Public Bid Law

Recommendation:

We recommend that payments be made in accordance with agreed-upon terms and submitted when goods or services are transferred. We further recommend that the organization obtain a Louisiana Attorney General opinion on matters pertaining to the advance of these funds.

Status:

Not resolved as the Organization is awaiting a Louisiana Attorney General opinion on matters pertaining to the advance of these funds. See finding 2020-001.

2019-002 Advance of Public Funds and Public Bid Law

Recommendation:

We recommend that management follow Public Bid Law, when applicable. We recommend that the organization obtain a Louisiana Attorney General opinion on matters pertaining to the advance of these funds and the organization's applicability and adherence to the above referenced statutes.

Status:

Not resolved as the Organization is awaiting a Louisiana Attorney General opinion on matters pertaining to the advance of these funds. See finding 2020-002.

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

KENNER, LOUISIANA

PERFORMANCE AND STATISTICAL DATA

FOR THE YEAR ENDED JUNE 30, 2020



DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

KENNER, LOUISIANA

PERFORMANCE AND STATISTICAL DATA

FOR THE YEAR ENDED JUNE 30, 2020



Independent Accountants’ Report
On Applying Agreed-Upon Procedures

To the Board of Directors of Discovery Health Sciences Foundation, Inc., the Louisiana Department of Education, and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by the management of Discovery Health Sciences Foundation, Inc. (“Discovery”), the Louisiana Department of Education, and the Louisiana Legislature Auditor (the specified parties), on the performance and statistical data accompanying the annual financial statements of Discovery for the fiscal year ended June 30, 2020; and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE) Bulletin, in compliance with Louisiana Revised Statute 24:514.I. Management of Discovery is responsible for its performance and statistical data. The sufficiency of these procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

*General Fund Instructional and Support Expenditures
and Certain Local Revenue Sources (Schedule 1)*

1. We selected a sample of 25 transactions, reviewed supporting documentation, and observed that the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following amounts reported on Schedule 1:
 - Total General Fund Instructional Expenditures,
 - Total General Fund Equipment Expenditures,
 - Total Local Taxation Revenue (no revenue reported),
 - Total Local Earnings on Investment in Real Property (no revenue reported),
 - Total State Revenue in Lieu of Taxes (no revenue reported),
 - Nonpublic Textbook Revenue (no revenue reported), and
 - Nonpublic Transportation Revenue (no revenue reported).

We noted no exceptions.

Class Size Characteristics (Schedule 2)

2. We obtained a list of classes by school, school type, and class size as reported on the schedule. We then traced a sample of 10 classes to the October 1, 2019 roll books and observed that the class was properly classified on the schedule.

We noted no exceptions.



Education Levels/Experience of Public School Staff (NO SCHEDULE)

3. We obtained October 1, 2019 PEP data submitted to the Department of Education (or equivalent listing prepared by management), including full-time teachers, principals, and assistant principals by classification, as well as their level of education and experience, and obtained management's representation that the data/listing was complete. We then selected a sample of 25 individuals, traced to each individual's personnel file, and observed that each individual's education level and experience was properly classified on the PEP data or equivalent listing prepared by management.

We noted nineteen exceptions where an individual's education level or years of experience was not classified correctly on the PEP data when compared to the individual's personnel file.

Public School Staff Data: Average Salaries (NO SCHEDULE)

4. We obtained June 30, 2020 PEP data submitted to the Department of Education (or equivalent listing provided by management) of all classroom teachers, including base salary, extra compensation, and ROTC or rehired retiree status, as well as full-time equivalents, and obtained management's representation that the data/listing was complete. We then selected a sample of 25 individuals, traced to each individual's personnel file, and observed that each individual's salary, extra compensation, and full-time equivalents were properly included on the PEP data (or equivalent listing prepared by management).

We noted no exceptions.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in Government Auditing Standards, issued by the United States Comptroller General. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the performance and statistical data. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on the performance and statistical data accompanying the annual financial statements of Discovery, as required by Louisiana Revised Statute 24:514.I, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Postlethwaite & Netterville

Metairie, Louisiana
October 15, 2020

DISCOVERY HEALTH SCIENCES FOUNDATION, INC.
KENNER, LOUISIANA

Schedules Required by State Law (R.S. 24:514 – Performance and Statistical Data)
As of and for the Year Ended June 30, 2020

Schedule 1 - General Fund Instructional and Support Expenditures and Certain Local Revenue Sources

This schedule includes general fund instructional and equipment expenditures. It also contains local taxation revenue, earnings on investments, revenue in lieu of taxes, and nonpublic textbook and transportation revenue. This data is used either in the Minimum Foundation Program (MFP) formula or is presented annually in the MFP 70% Expenditure Requirement Report.

Schedule 2 - Class Size Characteristics

This schedule includes the percent and number of classes with student enrollment in the following ranges: 1-20, 21-26, 27-33, and 34+ students.

Schedule 1: Discovery Health Sciences Foundation, Inc.
General Fund Instructional and Support Expenditures and Certain Local Revenue Sources
For the Year Ended June 30, 2020

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures:		
Teacher and Student Interaction Activities:		
Classroom Teacher Salaries	\$ 5,819,542	
Other Instructional Staff Activities	1,299,324	
Instructional Staff Employee Benefits	1,490,888	
Purchased Professional and Technical Services	39,866	
Instructional Materials and Supplies	722,212	
Instructional Equipment	-	
Total Teacher and Student Interaction Activities	<u> </u>	9,371,832
Other Instructional Activities		<u>258,048</u>
		9,629,880
Pupil Support Activities	1,044,428	
Less: Equipment for Pupil Support Activities	-	
Net Pupil Support Activities	<u> </u>	1,044,428
Instructional Staff Services	66,460	
Less: Equipment for instructional staff services	-	
Net Instructional Staff Services	<u> </u>	66,460
School Administration	2,014,682	
Less: Equipment for School Administration	-	
Net School Administration	<u> </u>	2,014,682
Total General Fund Instructional Expenditures		<u><u>\$ 12,755,450</u></u>
Total General Fund Equipment Expenditures		<u><u>\$ -</u></u>

Certain Local Revenue Sources

Not Applicable

Prepared by Discovery Health Sciences Foundation, Inc.

Schedule 2: Class Size Characteristics
As of October 1, 2019

School Type	Class Size Range							
	1-20		21-26		27-33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Elementary	21%	9	79%	33	0%	-	0%	-
Elementary Activity Classes	0%	-	0%	-	0%	-	0%	-
Middle/Junior High	0%	-	0%	-	0%	-	0%	-
Middle/Junior High Activity Classes	0%	-	0%	-	0%	-	0%	-
High	0%	-	0%	-	0%	-	0%	-
High Activity Classes	0%	-	0%	-	0%	-	0%	-
Combination	37%	216	53%	310	9%	52	1%	4
Combination Activity Classes	45%	37	39%	32	6%	5	11%	9

Note: The Board of Elementary and Secondary Education has set specific limits on the maximum size of classes at various grade levels. The maximum enrollment in grades K-3 is 26 students and maximum enrollment in grades 4-12 is 33 students. These limits do not apply to activity classes such as physical education, chorus, band, and other classes without maximum enrollment standards. Therefore, these classes are included only as separate line items.

Prepared by Discovery Health Sciences Foundation, Inc.