

STARC OF LOUISIANA, INC.

Audits of Financial Statements

June 30, 2018 and 2017



Contents

Independent Auditor's Report	1 - 2
-------------------------------------	-------

Basic Financial Statements

Statements of Financial Position	3 - 4
Statements of Activities	5
Statements of Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 18

Supplementary Information

Schedule of Compensation, Benefits, and Other Payments to Agency Head	20
--	----

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 22
--	---------

Schedule of Findings and Responses	23
---	----

Summary Schedule of Prior Audit Findings	24
---	----

Independent Auditor's Report

To the Board of Directors
STARC of Louisiana, Inc.
Slidell, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of STARC of Louisiana, Inc. (a Louisiana not-for-profit corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STARC of Louisiana, Inc. as of June 30, 2018 and 2017, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of compensation, benefits, and other payments to agency head, as required by Louisiana Revised Statute (LRS) 24:513A, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018 on our consideration of STARC of Louisiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STARC of Louisiana, Inc.'s internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA
December 19, 2018

STARC OF LOUISIANA, INC.
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 3,378,653	\$ 4,172,317
Accounts Receivable, Net	789,388	433,311
Note Receivable, Current	1,880	7,680
Unconditional Promises to Give, Net	74,401	111,189
Linen Inventory, Net	4,589	-
Prepaid Expenses	105,444	39,573
Total Current Assets	4,354,355	4,764,070
Property and Equipment		
Buildings and Improvements	5,855,146	4,702,322
Furniture and Equipment	482,705	476,413
Vehicles	857,673	857,673
	7,195,524	6,036,408
Less: Accumulated Depreciation	(3,177,395)	(3,014,536)
	4,018,129	3,021,872
Land	662,324	661,219
Construction in Progress	558,514	582,031
Total Property and Equipment, Net	5,238,967	4,265,122
Other Assets		
Deposits	500	500
Notes Receivable, Long-Term	-	1,880
Bed Licenses	403,535	215,655
Total Other Assets	404,035	218,035
Total Assets	\$ 9,997,357	\$ 9,247,227

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

STARC OF LOUISIANA, INC.
Statements of Financial Position (Continued)
June 30, 2018 and 2017

	2018	2017
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 310,144	\$ 273,205
Accrued Salaries, Wages, and Taxes	471,869	407,708
Accumulated Paid Leave	175,667	161,796
Deferred Revenue	1,392,305	1,446,764
Construction Loan	-	205,404
Current Maturities of Long-Term Debt	166,714	157,830
Total Current Liabilities	2,516,699	2,652,707
Other Liabilities		
Long-Term Debt, Net of Current Maturities	1,804,981	964,825
Line of Credit	-	74,793
Total Other Liabilities	1,804,981	1,039,618
Total Liabilities	4,321,680	3,692,325
Net Assets		
Unrestricted		
Undesignated	4,993,710	4,737,390
Board Designated	211,922	347,467
Temporarily Restricted	470,045	470,045
Total Net Assets	5,675,677	5,554,902
Total Liabilities and Net Assets	\$ 9,997,357	\$ 9,247,227

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

STARC OF LOUISIANA, INC.
Statements of Activities
For the Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Support						
Government Grants and Contracts	\$ 4,056,313	\$ -	\$ 4,056,313	\$ 4,158,857	\$ -	\$ 4,158,857
Ad Valorem Taxes	1,853,754	-	1,853,754	1,712,420	-	1,712,420
Private Providers	498,459	-	498,459	594,208	-	594,208
Program Services	246,536	-	246,536	271,278	-	271,278
Sale of Services	381,395	-	381,395	376,433	-	376,433
Donations and Private Grants	112,763	-	112,763	139,400	-	139,400
United Way Allocation	-	52,480	52,480	-	52,480	52,480
United Way Designations	17,036	-	17,036	43,360	-	43,360
Fundraising	114,318	-	114,318	97,140	-	97,140
Other	151,319	-	151,319	413,698	-	413,698
	<u>7,431,893</u>	<u>52,480</u>	<u>7,484,373</u>	<u>7,806,794</u>	<u>52,480</u>	<u>7,859,274</u>
Net Assets Released from Restrictions	52,480	(52,480)	-	52,480	(52,480)	-
Total Revenues, Gains, and Other Support	7,484,373	-	7,484,373	7,859,274	-	7,859,274
Expenses						
Program Services	5,613,364	-	5,613,364	5,827,887	-	5,827,887
Supporting Services	1,750,234	-	1,750,234	1,687,210	-	1,687,210
Total Expenses	7,363,598	-	7,363,598	7,515,097	-	7,515,097
Change in Net Assets	120,775	-	120,775	344,177	-	344,177
Net Assets, Beginning of Year	5,084,857	470,045	5,554,902	4,740,680	470,045	5,210,725
Net Assets, End of Year	\$ 5,205,632	\$ 470,045	\$ 5,675,677	\$ 5,084,857	\$ 470,045	\$ 5,554,902

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

STARC OF LOUISIANA, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services					Total Program Services	Supporting Services		Total Supporting Services
	Adult Habilitation	Infant Habilitation	Residential	Waivered Services	Commercial Business Services		General and Administrative	Board and Fundraising	
Salaries, Wages, and Benefits	\$ 899,315	\$ 207,819	\$ 730,835	\$ 1,487,808	\$ 182,237	\$ 3,508,014	\$ 1,188,689	\$ 30,665	\$ 1,219,354
Payroll Taxes	66,864	15,213	54,931	107,329	14,484	258,821	81,933	2,365	84,298
Professional Services	16,903	3,770	14,979	6,994	1,929	44,575	18,156	6,194	24,350
Day Service Charges	-	-	206,135	-	-	206,135	-	-	-
State Bed Fees	-	-	141,474	-	-	141,474	-	-	-
Supplies	15,402	33,356	88,709	7,021	34,461	178,949	21,823	1,780	23,603
Interest	31,294	-	-	-	-	31,294	20,561	-	20,561
Telephone	28,404	5,791	13,909	12,281	4,049	64,434	27,492	869	28,361
Occupancy	127,202	32,602	112,653	30,212	-	302,669	101,868	5,969	107,837
Insurance	85,265	23,518	60,532	87,123	64,821	321,259	50,602	6,795	57,397
Depreciation and Amortization	79,958	21,212	60,683	10,533	82,765	255,151	48,983	-	48,983
Travel and Transportation	116,393	218	31,320	14,432	29,840	192,203	16,570	442	17,012
Conferences and Training	7,884	4,613	13,438	23,572	215	49,722	15,895	300	16,195
Miscellaneous	8,680	902	5,033	18,134	25,915	58,664	34,823	67,460	102,283
Total	\$ 1,483,564	\$ 349,014	\$ 1,534,631	\$ 1,805,439	\$ 440,716	\$ 5,613,364	\$ 1,627,395	\$ 122,839	\$ 1,750,234

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

STARC OF LOUISIANA, INC.
Statement of Functional Expenses (Continued)
For the Year Ended June 30, 2017

	Program Services					Total Program Services	Supporting Services		Total Supporting Services
	Adult Habilitation	Infant Habilitation	Residential	Waivered Services	Commercial Business Services		General and Administrative	Board and Fundraising	
Salaries, Wages, and Benefits	\$ 988,667	\$ 213,020	\$ 706,520	\$ 1,657,696	\$ 197,785	\$ 3,763,688	\$ 1,209,364	\$ 28,836	\$ 1,238,200
Payroll Taxes	69,140	14,807	50,236	114,665	14,429	263,277	78,286	2,211	80,497
Professional Services	13,284	6,316	27,475	7,081	1,286	55,442	21,820	26,561	48,381
Day Service Charges	-	-	205,992	-	-	205,992	-	-	-
State Bed Fees	-	-	141,471	-	-	141,471	-	-	-
Supplies	12,940	27,850	87,028	6,723	36,474	171,016	20,180	103	20,283
Interest	12,511	-	-	-	-	12,511	-	-	-
Telephone	29,093	5,652	13,226	11,829	3,494	63,294	32,891	942	33,833
Occupancy	101,539	40,805	88,943	23,353	-	254,640	134,035	4,380	138,415
Insurance	90,400	23,883	62,173	89,805	66,981	333,242	35,008	6,523	41,531
Depreciation and Amortization	62,027	22,576	66,726	9,611	80,496	241,436	27,546	-	27,546
Travel and Transportation	118,500	299	44,922	15,295	39,091	218,107	12,344	530	12,874
Conferences and Training	8,053	4,196	12,288	24,558	122	49,218	14,755	84	14,839
Miscellaneous	6,978	10,761	17,713	5,449	13,654	54,554	19,330	11,481	30,812
Total	\$ 1,513,132	\$ 370,165	\$ 1,524,713	\$ 1,966,065	\$ 453,812	\$ 5,827,887	\$ 1,605,559	\$ 81,651	\$ 1,687,210

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

STARC OF LOUISIANA, INC.
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	\$ 120,775	\$ 344,177
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and Amortization	304,134	268,980
Loss (Gain) on Disposition of Property and Equipment	39,768	(10,500)
(Increase) Decrease in Operating Assets		
Accounts Receivable, Net	(356,077)	37,918
Unconditional Promises to Give, Net	36,788	31,999
Prepaid Expenses	(65,871)	10,389
Deposits	-	2,500
Notes Receivable	7,680	7,680
Increase (Decrease) in Operating Liabilities		
Accounts Payable	36,939	189,636
Accrued Salaries, Wages, and Taxes	64,161	(106,063)
Accumulated Paid Leave	13,871	(7,795)
Deferred Revenue	(54,459)	115,000
Net Cash Provided by Operating Activities	143,120	883,921
Cash Flows from Investing Activities		
Purchases of Property and Equipment	(32,468)	(667,839)
Purchases of Construction in Progress	(1,268,080)	-
Purchases of Other Assets	(205,079)	(204,728)
Proceeds from Sale of Property and Equipment	-	10,500
Net Cash Used in Investing Activities	(1,505,627)	(862,067)
Cash Flows from Financing Activities		
Payments (Proceeds) on Line of Credit	(74,793)	280,197
Proceeds from Long-Term Debt	797,769	39,055
Principal Payments on Long-Term Debt	(154,133)	(99,754)
Net Cash Provided by Financing Activities	568,843	219,498
Net (Decrease) Increase in Cash and Cash Equivalents	(793,664)	241,352
Cash and Cash Equivalents, Beginning of Year	4,172,317	3,930,965
Cash and Cash Equivalents, End of Year	\$ 3,378,653	\$ 4,172,317
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for Interest	\$ 94,181	\$ 49,832
Supplemental Disclosures of Non-Cash Financing Transactions		
Debt Issued for Purchase of Building and Land	\$ -	\$ 975,000
Debt Issued for for Renovations	\$ 797,769	\$ 205,404

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

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

STARC of Louisiana, Inc. (STARC) was incorporated on June 20, 1968. STARC provides day care services, work training services, respite and personal care services, and residential housing for citizens of St. Tammany Parish with mental retardation and/or developmental disabilities.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and liabilities.

Basis of Presentation

STARC follows the guidance of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). STARC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

Revenues and gains are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

Unrestricted Undesignated Net Assets - Assets that are not restricted by donors or for which there are no restrictions.

Unrestricted Board Designated Net Assets - Assets that have been designated by the Board of Directors for a specific use or purpose.

Temporarily Restricted Net Assets - The portion of net assets that arise from contributions that are restricted by donors for specific purposes or time periods.

Permanently Restricted Net Assets - A donation, grant, or contract, a portion of which is restricted by the donor or by law to be maintained by STARC in perpetuity. There were no permanently restricted net assets as of June 30, 2018 and 2017.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, STARC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

It is STARC's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Management believes use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Promises to Give

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges are expected to be collected over a five-year period. Management feels any discounts on pledges expected to be collected after one year are not material. As a result, pledges are recorded at the net realizable value. As of June 30, 2018, unconditional promises to give are shown on the statements of financial position consisted of \$21,921, net of allowance of \$8,000, due from donors of STARC for Life Campaign and \$52,480 due from United Way. As of June 30, 2017, unconditional promises to give are shown on the statements of financial position consisted of \$58,708, net of allowance of \$8,100, due from donors of STARC for Life Campaign and \$52,481 due from United Way.

Inventory

Amortization expense for the years ended June 30, 2018 and 2017, was \$17,198 and \$16,847, respectively.

Property and Equipment

Purchased property and equipment in excess of \$5,000, is capitalized and recorded at cost at the date of acquisition. Contributed property and equipment is recorded at fair value at the date of donation. Expenses for maintenance, repairs, and renewals of minor items are charged as incurred.

Depreciation and amortization are computed by the straight-line method at rates based on the following estimated useful lives: Furniture and Equipment - 5 to 20 years; Building and Improvements - 5 to 30 years; and Vehicles - 3 to 5 years.

Depreciation expense for the years ended June 30, 2018 and 2017, was \$286,936 and \$252,133, respectively.

Restricted and Unrestricted Revenues and Other Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Donated Assets and Services

STARC recorded non-cash donations as contributions at its estimated fair market value at the date of donation.

Various functions of STARC are conducted by unpaid officers, board members, and volunteers. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria necessary for recognition. STARC recognizes donated services, if significant in amount, which create or enhance non-financial assets or that require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Functional Expense Allocation

Functional expenses are allocated among the various programs, services, and general and administrative categories based on actual use or management's best estimate.

Income Taxes

STARC qualifies for an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. STARC believes that it has appropriate support for any tax positions taken, and management has determined that there are no uncertain tax positions that are material to the financial statements. Penalties and interest assessed by income taxing authorities, if any, would be included in income tax expense.

Use of Estimates

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

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. ASU 2014-09 will be effective for STARC beginning in the year ending July 31, 2019, though early adoption is permitted. The new revenue standard may be applied retrospectively as of the date of adoption. STARC is currently evaluating the impact of adopting the new revenue standard on its financial statements.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements (Continued)

In January 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from leases classified as financing or operating leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2019. STARC is currently evaluating the impact ASU 2016-02 will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. STARC is currently evaluating the impact ASU 2016-14 will have on the financial statements.

Note 2. Concentrations of Credit Risk

STARC has concentrated its credit risk by maintaining deposits in banks located within the same geographic region that may, at times, exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2018, approximately \$1,900,000 of cash and cash equivalents were uninsured. STARC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

A significant portion of STARC's revenue is derived from the ad valorem tax revenue described in Note 8, the Medicaid waiver program, and Title XIX funding. As of June 30, 2018, ad valorem taxes represents 25% of revenues, Medicaid waiver program represents 34% of revenues, and Title XIX represents 18% of revenues. As of June 30, 2017, ad valorem taxes represents 22% of revenues, Medicaid waiver program represents 34% of revenues, and Title XIX represents 17% of revenues.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 3. Accounts Receivable

As of June 30th, accounts receivable were comprised of:

	2018	2017
Waiver Services	\$ 469,355	\$ 205,354
Title XIX	108,785	104,847
Supported Services	72,530	59,145
Vehicle Grants	112,264	39,134
Contracted Services	25,447	23,841
Other	1,007	990
Total	\$ 789,388	\$ 433,311

Note 4. Unconditional Promises to Give

As of June 30th, unconditional promises to give were comprised of:

	2018	2017
Due Within One Year	\$ 82,401	\$ 119,289
Less: Allowance	(8,000)	(8,100)
Unconditional Promises to Give, Net	\$ 74,401	\$ 111,189

Note 5. Notes Receivable

On October 1, 2015, STARC entered into a promissory note due from The Northshore Project, for a vehicle sold in the amount of \$23,000, with a monthly payment of \$640 for a period of 36 months.

Future minimum receipts are as follows:

Year Ending June 30,	Amount
2019	\$ 1,880
Total	\$ 1,880

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 6. Accumulated Paid Leave

All full-time regular status employees who do not carry the Direct Support Professional title are eligible for paid leave. At the beginning of each fiscal year, STARC deposits into each employee's annual leave account a lump sum amount of leave hours for use of time off during that fiscal year. The amount of leave each receives is based on the employee's job classification and years of eligible service. At the end of each fiscal year, unused annual leave hours up to established limits, are automatically transferred to the employee's accumulated leave account. Annual leave hours not used are not payable to employees upon resignation, retirement, termination, or death, while accumulated leave hours will be paid out upon resignation, retirement, termination, or death at the employee's current hourly rate.

	2018	2017
Beginning Balance	\$ 161,796	\$ 169,591
Additions	211,334	201,681
Reductions	(197,463)	(209,476)
Ending Balance	\$ 175,667	\$ 161,796

Note 7. Board Designations

It is the policy of the Board of Directors of STARC to review its plans for future property improvements, acquisitions, and program services from time to time and to designate appropriate sums of unrestricted net assets to ensure adequate financing. At June 30, 2018 and 2017, STARC's Board had \$211,922 and \$347,467, respectively, in designated funds.

Note 8. Administration Agreement and Deferred Revenue

Effective February 18, 2009, the St. Tammany Parish Council (the Council) and STARC entered into an administration agreement for a period of ten years, whereby STARC would provide services relating to acquiring, constructing, improving, maintaining, and operating authorized activities, services, programs, and/or facilities for individuals with mental retardation and/or developmental disabilities in St. Tammany Parish. The agreement requires the Council to compensate STARC a 1 mill tax annually. STARC received \$1,874,866 and \$1,744,151, of which \$1,366,415 and \$1,345,303 was deferred for the fiscal years ended June 30, 2018 and 2017, respectively, to properly recognize revenue when it will be earned. STARC incurred expenditures relating to the services provided in the amount of \$1,853,754 and \$1,712,420, for the years ended June 30, 2018 and 2017, respectively. The ad valorem tax received from the Council and the expenditures incurred are included in the specific programs and supporting services of STARC on the statements of activities.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 9. United Way Allocation/Grants

STARC participates in the United Way for the Greater New Orleans Area allocation and designation of funds process. To participate in the allocation and designation of funds, certain restrictions were placed on STARC's ability to conduct certain fundraising activities or otherwise solicit contributions. The United Way's allocation/designation to STARC for the years ended June 30, 2018 and 2017, was \$69,516 and \$95,840, respectively.

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$470,045, for years ended June 30, 2018 and 2017, are donations from corporations, individuals, and pledges receivable from the United Way of Greater New Orleans to support adult services and Jacob's Ladder Adult Day Care. There were \$52,480 of temporarily restricted net assets released from donor restrictions for the years ended June 30, 2018 and 2017, respectively.

Note 11. Donated Facilities

STARC occupies donated office space in Slidell. The total value of this donated space was recorded in the statements of activities in donations and private grants for \$14,350 and \$32,100, for the years ended June 30, 2018 and 2017, respectively. This amount includes donated rent at fair value of the property and donated utilities.

Note 12. Line of Credit

STARC has an \$800,000 line of credit as of June 30, 2018 and 2017, bearing interest at a variable interest rate, which was 4.65% as of June 30, 2018 and is secured by a collateral real estate mortgage. The outstanding balance at December 31, 2017 was \$74,793.

Note 13. Construction Loan

On May 31, 2017, STARC entered into a construction loan agreement for construction and renovation of a building located at 40201 Hwy 190 East, Slidell, Louisiana. The loan shall not exceed \$1,024,999 and bears interest at a variable interest rate which was 4.99% as of June 30, 2018. Upon completion of the project in March 2018, the loan was converted to a mortgage note.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 14. Long-Term Debt

STARC had the following note payable as of June 30th:

	<u>2018</u>	<u>2017</u>
Mortgage note dated March 31, 2018, payable to a bank in monthly installments of \$6,800, consisting of principal and interest accruing at a rate of 4.99% through October 2029. Collateralized by land and building.	\$ 1,003,173	\$ -
Mortgage note dated March 24, 2011, payable to a bank in monthly installments of \$5,406, consisting of principal and interest accruing at a rate of 6.1% through November 2018. Collateralized by land and building.	41,552	147,655
Mortgage note dated May 26, 2017, payable to a bank in monthly installments of \$6,106, consisting of principal and interest accruing at a rate of 4.3% through June 2024. Collateralized by land and building.	<u>926,970</u>	<u>975,000</u>
Total	<u>\$ 1,971,695</u>	<u>\$ 1,122,655</u>

Maturities are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 166,714
2020	139,564
2021	146,518
2022	153,585
2023	159,685
Thereafter	<u>1,205,629</u>
Total	<u>\$ 1,971,695</u>

Interest paid on the note payable for the years ended June 30, 2018 and 2017, was \$94,181 and \$49,832, respectively.

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 15. Warehouse Lease

In September 2015, STARC entered into an agreement to lease the warehouse which housed the linen service operations to a third party. The lease has a term of 36 months, beginning October 2, 2015. The lessee agreed to pay monthly installments of \$2,960 for the first six months. The monthly installments increased by \$740 per month for the next six months. The current monthly installments are \$7,400. The warehouse was sold to Freemoe Holdings in August 2018. STARC will receive future rental lease income for 3 months in the amount of \$22,200, for the year ending June 30, 2019, respectively.

Note 16. Operating Leases

STARC signed a one-year term lease commencing on September 1, 2008 for the rental of office space. The lease continues on a month-to-month basis. Monthly rental amounts are approximately \$2,534. In addition, STARC signed a one-year lease commencing on March 1, 2013 for rental of office space. The lease includes two one-year options with three months prior notice. Monthly rent amounts are \$741. Both office space rent agreements contain a donated portion of the lease which is detailed in Note 11. Actual rental expense paid for the years ended June 30, 2018 and 2017, was \$29,575 and \$39,300, respectively.

STARC signed a contract that has an indefinite life span for the use of a certain parcel of ground that is entirely enclosed by a fence that has been developed into a park-like area complete with a paved walking path, a bocce ball court, and benches throughout.

Future minimum lease payments on office space are as follows:

Year Ending June 30,	Amount
2019	\$ 4,800
2020	800
Total	\$ 5,600

STARC has multiple operating leases for office equipment at various locations. Lease expense for office equipment for the years ended June 30, 2018 and 2017, was \$13,115 and \$15,011, respectively,

STARC OF LOUISIANA, INC.

Notes to Financial Statements

Note 17. Retirement Plans

STARC established a 401(k) Thrift Plan (the Plan) effective November 1, 2000. Employees of STARC may participate in the Plan, whereby employees elect to make voluntary contributions pursuant to a salary reduction agreement. It is available to all employees who have completed the service requirements (equivalent to one year of service with 1,000 hours of service or more). STARC makes discretionary contributions to the Plan each year as a percentage of all participants' contributions.

On April 19, 2012, STARC established a 457(b) Top Hat Plan whereby the executive staff can contribute to a retirement plan and STARC still be in compliance with the requirements of the 401(k) plan. The highly compensated employees who participate in this plan do so with only their own deferrals. STARC makes discretionary contributions to this plan each year as a percentage of all participants' contributions.

STARC's contribution for both plans for the years ended June 30, 2018 and 2017, was \$11,092 and \$12,292, respectively.

Note 18. Deferred Compensation

On March 16, 2005, the Board established a "years of service" bonus plan for any retiring employee who has been employed by STARC for a minimum of 20 years and has maintained a satisfactory employment record. The bonus payments are not guaranteed and are paid only from Board-approved unrestricted funds that are available in the fiscal year in which a qualifying employee retires. Bonus payments are based on 50%, 75%, or 100% of the employee's annualized regular salary at retirement date, depending on years of service. Bonus payment expense was \$26,027 and \$67,501, for the years ended June 30, 2018 and 2017, respectively, and is recorded in salary, wages, and benefits on the statements of functional expense.

Note 19. Contingencies

From time to time, STARC is involved in claims or legal proceedings arising in the ordinary course of operations. In the opinion of management, the outcome of such actions will have no material impact on STARC's financial position or results of operations.

Note 20. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 19, 2018, and determined that the following event occurred that require disclosure. STARC sold their warehouse located at 40016 Hwy 190 E in Slidell, Louisiana to Freemoe Holdings, Inc. in the amount of \$790,000 in August 2018. No subsequent events after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTARY INFORMATION

STARC OF LOUISIANA, INC.
Supplementary Information
Schedule of Compensation, Benefits, and Other Payments
to Agency Head
For the Year Ended June 30, 2018

Louisiana Revised Statute 24:513(A)(3) as amended by Act 706 of the 2014 Regular Legislative Session requires that the total compensation, reimbursements, and benefits of an agency head or political subdivision head or chief executive officer related to the position, including but not limited to travel, housing, unvouchered expense, per diem, and registration fees be reported as a supplemental report within the financial statements of local government and quasi-public auditees. In 2015, Act 462 of the 2015 Regular Session of the Louisiana Legislature further amended LRS 24:513(A)(3) to clarify that non-governmental entities or non-for-profit entities that receive public funds shall report only the use of public funds for the expenditures itemized in the supplemental report.

Agency Head
Dianne Baham, Executive Director

Purpose	Amount
Salary	\$101,584
Benefits - Insurance	\$58
Benefits - Retirement	\$1,857
Benefits - Other	\$13,290
Vehicle Provided by Agency	\$6,545
Per Diem	\$0
Reimbursements	\$1,146
Travel	\$0
Registration Fees	\$0
Conference Travel	\$0
Continuing Professional Education Fees	\$0
Housing	\$0
Unvouchered Expenses	\$0
Special Meals	\$0

See independent auditor's report.

**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**

Independent Auditor's Report

To the Board of Directors
STARC of Louisiana, Inc.
Slidell, 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 financial statements of STARC of Louisiana, Inc., which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered STARC of Louisiana, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STARC of Louisiana, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of STARC of Louisiana, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 STARC of Louisiana, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
December 19, 2018

STARC OF LOUISIANA, INC.
Schedule of Findings and Responses
For the Year Ended June 30, 2018

Part I - Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting and compliance and other matters: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None reported |
| c. Noncompliance material to the financial statement? | No |
| 3. Management letter comment provided? | No |

Federal Awards

Not applicable

Part II - Findings Related to the Financial Statements

None

STARC OF LOUISIANA, INC.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2018

Findings Related to the Financial Statements

None

AGREED-UPON PROCEDURES REPORT

STARC of Louisiana, Inc.

Independent Accountant's Report
On Applying Agreed-Upon Procedures

For the Year Ended June 30, 2018

To the Management of STARC of Louisiana, Inc. and the
Louisiana Legislative Auditor:

We have performed the procedures enumerated below as they are a required part of the engagement. We are required to perform each procedure and report the results, including any exceptions. Management is required to provide a corrective action plan that addresses all exceptions noted.

Management of STARC of Louisiana, Inc. (STARC) is responsible for its financial records, establishing internal controls over financial reporting, and compliance with applicable laws and regulations. These procedures were agreed to by management of STARC and the Legislative Auditor, State of Louisiana, solely to assist the users in assessing certain controls at STARC during the year ended June 30, 2018, in accordance with Act 774 of 2014 Regular Legislative Session. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings are as follows:

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) **Purchasing**, including how vendors are added to the vendor list.
 - b) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
 - c) **Bank Reconciliations**, including (1) monthly bank statement reconciliations, (2) review of all bank reconciliations by someone independent of cash receipt and disbursement functions, and (3) process for addressing items outstanding for more than 12 months from the statement closing date, if applicable.

Results: STARC's written policies and procedures addressed each of the financial/business functions listed above with the following exceptions:

Purchasing

- How vendors are added to the vendor list was not addressed within the policy.

Contracting

- STARC does not have a general policy which addresses the elements listed above. STARC does have a policy which addresses the approval and monitoring processes of contracts for construction, renovation, and major repairs.

Bank Reconciliations

- Review of all bank reconciliations by someone independent of cash receipt and disbursement functions was not addressed within the policy.

Capital Assets

2. Obtain and inspect the entity's written policies and procedures over capital assets and observe that they address the process for tagging assets, performing an annual inventory, and disposing of assets.

Results: There were no written policies or procedures over capital assets.

3. Obtain documentation from management for the most recent capital asset inventory count in which all assets were inventoried. Observe that the inventory count was performed no more than one year ago.

Results: Noted that the inventory count was performed for equipment and vehicles. No formal inventory count was performed for other capital assets.

4. Obtain a listing of capital assets and obtain management's representation that the listing is complete. Randomly select 25 assets from the listing, physically locate each asset, and observe that each asset is tagged and agrees to the information on the listing as to the location, description, manufacturer, model, and serial number.

Results: No exceptions noted.

5. Select 10 capital assets in two physical locations (if entity has at least two physical locations) that meet the asset capitalization threshold (e.g., vehicles, office furniture, lawn mowers). Observe that each asset is tagged and trace to the listing from #4 above. Observe that each asset is included on the listing and agree the information on the listing to the location, description, manufacturer, model, and serial number of the asset.

Results: No exceptions noted.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

6. Obtain and inspect the entity's written policies and procedures over credit cards, bank debit cards, fuel cards, and P-cards (cards) and observe that they address the following:
 - a) How cards are to be controlled, including procedures for lost cards, authorized users, removal of signatory authorization upon employment termination, and approval required to open an account;
 - b) Allowable business uses, including a prohibition on cash advances;
 - c) Documentation requirements, including procedures for lost receipts;

- d) Required approvers of statements; and
- e) Monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

Results: No exceptions noted.

- 7. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

Results: No exceptions noted.

- 8. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
 - a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.

Results: No exceptions noted.

- 9. Using the monthly statements or combined statements selected under #8 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

Results: No exceptions noted.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to perform, and did not perform, an examination or review, the objective of which would be the expression of an opinion or conclusion. 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.

This report is intended solely for the use of management of STARC of Louisiana, Inc. and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA
December 19, 2018



Services... **T**raining... **A**dvocacy... **R**esources... **C**ommunity Connections

December 19, 2018

LaPorte, CPAs & Business Advisors
111 Veterans Memorial Boulevard, Suite 600
Metairie, LA 70005

Dear Ladies and Gentlemen:

The following is submitted in response to the findings identified during agreed-upon procedures performed in accordance with Act 774 of 2014 Regular Legislative Session as detailed in your report due the year ended June 30, 2018.

Implementing appropriate policies and procedures is very important to STARC. While STARC does have procedures in place for all areas noted, we will evaluate the results and work on developing policies and procedures to address the results, specifically regarding purchasing, contracting, and bank reconciliations. Although these functions are performed by separate individuals, we will work on a formal documentation process.

STARC will also implement appropriate policies and procedures regarding our capital assets, specifically evaluating the need for policies and procedures over our capital assets and establishing capital asset inventory procedures.

If you have any questions or need additional information, please contact me by email at dbaham@starcla.org or by phone at (985) 641-0197, extension 110. Thank you and God bless you.

Joyfully serving,

Dianne Baham
Executive Director



40201 HWY 190 East – Slidell, Louisiana 70461
Phone: (985)641-0197 - Fax: (985)643-4496
email: admin@starcla.org - www.starcla.org