

KINGSLEY HOUSE, INC.
AND AFFILIATES
COMBINED FINANCIAL STATEMENTS

June 30, 2018 and 2017



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JON S. FOLSE
LISA D. ENGLADE
KERNEY F. CRAFT, JR.



JONATHAN P. KOENIG
JOHN D. WHITE
VALERIE L. LOWRY

WEGMANN DAZET & COMPANY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kingsley House, Inc. and
Affiliates
New Orleans, Louisiana

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Kingsley House, Inc. and Affiliates (a nonprofit organization), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements. The combined financial statements of June 30, 2017 were audited by other auditors, whose report dated December 29, 2017 expressed an unmodified opinion on those combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined 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 auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Kingsley House, Inc. and Affiliates as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. 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*, and the accompanying Summary of Compensation, Benefits and Other Payments to Agency Heads are presented for purposes of additional analysis and are not a required part of the combined 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 combined 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 combined 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 21, 2018, on our consideration of Kingsley House, Inc. and Affiliate'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 Kingsley House, Inc. and Affiliate's internal control over financial reporting and compliance.

December 21, 2018

Wegmann Dargatz + Company

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018	2017
ASSETS					
Current assets					
Cash and cash equivalents	\$ 782,053	\$ -	\$ -	\$ 782,053	\$ 422,975
Investments	1,219,631	-	-	1,219,631	1,108,866
Promises to give, net	295,708	136,406	-	432,114	659,209
Accounts receivable					
Government contracts	42,714	-	-	42,714	40,039
Other	490,666	-	-	490,666	596,755
Prepaid expenses	25,096	-	-	25,096	113,075
Total current assets	<u>2,855,868</u>	<u>136,406</u>	<u>-</u>	<u>2,992,274</u>	<u>2,940,919</u>
Cash held for acquisition of property and donor restricted purposes	176,876	-	-	176,876	222,950
Long-term investments	-	-	332,318	332,318	305,003
Notes receivable	5,348,000	-	-	5,348,000	5,348,000
Property and equipment, net	14,314,343	-	-	14,314,343	15,077,753
Total assets	<u>\$ 22,695,087</u>	<u>\$ 136,406</u>	<u>\$ 332,318</u>	<u>\$ 23,163,811</u>	<u>\$ 23,894,625</u>
LIABILITIES					
Current liabilities					
Line of credit	\$ 363,562	\$ -	\$ -	\$ 363,562	\$ 394,507
Accounts payable and accrued liabilities	1,270,887	-	-	1,270,887	506,753
Current portion of long-term debt	146,087	-	-	146,087	145,033
Total current liabilities	<u>1,780,536</u>	<u>-</u>	<u>-</u>	<u>1,780,536</u>	<u>1,046,293</u>
Long-term debt, less current portion	9,477,861	-	-	9,477,861	9,623,948
Total liabilities	<u>11,258,397</u>	<u>-</u>	<u>-</u>	<u>11,258,397</u>	<u>10,670,241</u>
NET ASSETS					
Unrestricted					
Undesignated	9,618,701	-	-	9,618,701	7,474,822
Board designated	1,817,989	-	-	1,817,989	1,616,963
Permanently restricted	-	-	332,318	332,318	3,813,177
Temporarily restricted	-	136,406	-	136,406	319,422
Total net assets	<u>11,436,690</u>	<u>136,406</u>	<u>332,318</u>	<u>11,905,414</u>	<u>13,224,384</u>
Total liabilities and net assets	<u>\$ 22,695,087</u>	<u>\$ 136,406</u>	<u>\$ 332,318</u>	<u>\$ 23,163,811</u>	<u>\$ 23,894,625</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Governmental contracts	\$ 11,131,933	\$ -	\$ -	\$ 11,131,933
Foundation and corporate contracts	868,576	170,568	-	1,039,144
United Way funding for next year	-	136,406	-	136,406
Contributions	587,270	-	-	587,270
Donated services	1,439,283	-	-	1,439,283
Investment income	109,461	-	31,128	140,589
Program fees	99,819	-	-	99,819
Other income	335,007	-	-	335,007
Net assets released from restrictions				
United Way	139,687	(139,687)	-	-
Release from restrictions - fixed assets	2,588,680	(2,588,680)	-	-
Release from restrictions - pledges	519,522	(519,522)	-	-
Restrictions satisfied by payments	754,088	(735,856)	(18,232)	-
Total revenues	<u>18,573,326</u>	<u>(3,676,771)</u>	<u>12,896</u>	<u>14,909,451</u>
Expenses				
Program services				
Head Start	5,055,787	-	-	5,055,787
Youth Program	226,612	-	-	226,612
Adult Day Health Care	865,288	-	-	865,288
Community Counseling Center	113,381	-	-	113,381
Early Head Start	6,671,571	-	-	6,671,571
Community and Supportive Services	281,710	-	-	281,710
Participant Meal Program	564,665	-	-	564,665
Supporting services				
General and administrative	2,133,994	-	-	2,133,994
Fundraising	315,413	-	-	315,413
Total expenses	<u>16,228,421</u>	<u>-</u>	<u>-</u>	<u>16,228,421</u>
Change in net assets	<u>2,344,905</u>	<u>(3,676,771)</u>	<u>12,896</u>	<u>(1,318,970)</u>
Net assets				
Beginning of year	<u>9,091,785</u>	<u>3,813,177</u>	<u>319,422</u>	<u>13,224,384</u>
End of year	<u>\$ 11,436,690</u>	<u>\$ 136,406</u>	<u>\$ 332,318</u>	<u>\$ 11,905,414</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Governmental contracts	\$ 13,404,775	\$ -	\$ -	\$ 13,404,775
Foundation and corporate contracts	1,020,335	-	-	1,020,335
United Way funding for next year	-	139,687	-	139,687
Contributions	227,064	519,522	-	746,586
Donated services	900,980	-	-	900,980
Investment income	106,568	-	32,268	138,836
Program fees	144,551	-	-	144,551
Other income	399,381	-	2,200	401,581
Net assets released from restrictions				
United Way	149,003	(149,003)	-	-
Release from restrictions - 1542 Constance	1,270,123	(1,270,123)	-	-
Restrictions satisfied by payments	25,231	(21,335)	(3,896)	-
Total revenues	<u>17,648,011</u>	<u>(781,252)</u>	<u>30,572</u>	<u>16,897,331</u>
Expenses				
Program services				
Head Start	4,842,935	-	-	4,842,935
Youth Program	271,885	-	-	271,885
Adult Day Health Care	953,516	-	-	953,516
Community Counseling Center	261,990	-	-	261,990
Early Head Start	6,252,336	-	-	6,252,336
Community and Supportive Services	288,699	-	-	288,699
Participant Meal Program	555,189	-	-	555,189
Supporting services				
General and administrative	2,021,566	-	-	2,021,566
Fundraising	290,692	-	-	290,692
Total expenses	<u>15,738,808</u>	<u>-</u>	<u>-</u>	<u>15,738,808</u>
Change in net assets	1,909,203	(781,252)	30,572	1,158,523
Net assets				
Beginning of year	<u>7,182,582</u>	<u>4,594,429</u>	<u>288,850</u>	<u>12,065,861</u>
End of year	<u>\$ 9,091,785</u>	<u>\$ 3,813,177</u>	<u>\$ 319,422</u>	<u>\$ 13,224,384</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services							Supporting Services			
	Head Start	Youth Program	Adult Day Health Care	Community Counseling Center	Early Head Start	Community & Supportive Services	Participant Meal Program	Total Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 2,248,428	\$ 98,494	\$ 472,468	\$ 45,485	\$ 3,216,902	\$ 131,406	\$ 60,015	\$ 6,273,198	\$ 640,911	\$ 143,751	\$ 7,057,860
Employee benefits											
Health insurance	281,757	7,219	63,986	3,350	382,429	18,094	9,749	766,584	56,174	8,809	831,567
Retirement	61,664	1,420	14,929	1,565	88,048	4,761	1,618	174,005	17,264	4,748	196,017
Other	54,378	629	12,784	1,429	83,219	3,532	834	156,805	13,244	3,726	173,775
Payroll taxes	164,268	7,725	34,466	3,323	237,090	9,611	4,554	461,037	56,642	10,700	528,379
Total personnel and related expenses	<u>2,810,495</u>	<u>115,487</u>	<u>598,633</u>	<u>55,152</u>	<u>4,007,688</u>	<u>167,404</u>	<u>76,770</u>	<u>7,831,629</u>	<u>784,235</u>	<u>171,734</u>	<u>8,787,598</u>
Conferences, conventions, and meetings	31,293	622	905	219	58,543	3,762	315	95,659	15,825	3,449	114,933
Food	71,483	2,874	6,547	166	64,777	6,558	433,035	585,440	13,652	7,351	606,443
General insurance	4,388	2,873	283	-	4,388	283	-	12,215	-	-	12,215
Membership dues	1,741	-	40	-	2,422	-	-	4,203	14,117	1,891	20,211
Occupancy											
Utilities	144,613	15,333	47,657	761	50,350	2,546	1,483	262,743	64,820	3,115	330,678
Rent	(332)	-	-	14,896	-	7,860	-	22,424	7,448	-	29,872
Repairs and maintenance	62,776	9,697	27,503	1,407	34,881	1,447	14,837	152,548	87,154	2,383	242,085
Janitorial and housekeeping	89	41	132	-	320	30	-	612	80	759	1,451
Building insurance	58,676	26,772	62,245	1,441	69,156	13,977	-	232,267	70,825	3,200	306,292
Professional services	626,433	4,371	21,692	22,028	249,140	(321)	17,293	940,636	252,140	15,906	1,208,682
Program and office expense	1,113,231	14,338	34,982	14,207	2,006,414	27,939	20,849	3,231,960	260,355	26,882	3,519,197
Travel and transportation	20,300	352	43,090	1,178	46,745	10,232	83	121,980	13,833	2,751	138,564
Specific assistance to individuals	250	-	-	-	484	26,219	-	26,953	-	-	26,953
Field trips	2,513	6,811	-	-	1,656	1,036	-	12,016	-	-	12,016
Bad debt expense	2,335	337	7,253	998	3,066	10,530	-	24,519	1,537	147	26,203
Total expense before depreciation	<u>4,950,284</u>	<u>199,908</u>	<u>850,962</u>	<u>112,453</u>	<u>6,600,030</u>	<u>279,502</u>	<u>564,665</u>	<u>13,557,804</u>	<u>1,586,021</u>	<u>239,568</u>	<u>15,383,393</u>
Depreciation	105,503	26,704	14,326	928	71,541	2,208	-	221,210	547,973	75,845	845,028
Total expenses	<u>\$ 5,055,787</u>	<u>\$ 226,612</u>	<u>\$ 865,288</u>	<u>\$ 113,381</u>	<u>\$ 6,671,571</u>	<u>\$ 281,710</u>	<u>\$ 564,665</u>	<u>\$ 13,779,014</u>	<u>\$ 2,133,994</u>	<u>\$ 315,413</u>	<u>\$ 16,228,421</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Services							Supporting Services			
	Head Start	Youth Program	Adult Day Health Care	Community Counseling Center	Early Head Start	Community & Supportive Services	Participant Meal Program	Total Program Services	General and Administrative	Fundraising	Total
Personnel	\$ 2,328,772	\$ 119,894	\$ 470,182	\$ 96,750	\$ 2,853,448	\$ 141,443	\$ 64,737	\$ 6,075,226	\$ 854,994	\$ 157,136	\$ 7,087,356
Employee benefits											
Health insurance	258,506	4,845	56,557	6,368	305,469	16,017	5,662	653,424	45,521	12,015	710,960
Retirement	57,028	1,749	9,057	2,866	64,390	4,714	1,995	141,799	14,189	4,971	160,959
Other	66,348	2,624	15,673	3,206	87,794	4,321	2,341	182,307	20,225	4,835	207,367
Payroll taxes	169,714	9,048	33,501	7,359	206,727	9,990	4,727	441,066	45,452	11,410	497,928
Total personnel and related expenses	<u>2,880,368</u>	<u>138,160</u>	<u>584,970</u>	<u>116,549</u>	<u>3,517,828</u>	<u>176,485</u>	<u>79,462</u>	<u>7,493,822</u>	<u>980,381</u>	<u>190,367</u>	<u>8,664,570</u>
Conferences, conventions, and meetings	27,108	573	1,713	395	47,677	1,906	496	79,868	16,199	948	97,015
Food	69,478	4,359	6,212	277	61,136	5,427	404,366	551,255	17,481	3,102	571,838
General insurance	18,784	4,799	16,132	1,228	23,297	1,335	1,509	67,084	485	2,217	69,786
Membership dues	3,865	16	358	9	3,107	552	14	7,921	24,238	1,341	33,500
Occupancy											
Utilities	107,598	7,602	35,443	3,866	102,493	1,027	5,176	263,205	33,749	2,455	299,409
Rent	(14,701)	-	24,750	28,680	27,926	-	-	66,655	12,375	-	79,030
Repairs and maintenance	103,757	5,862	36,281	3,093	83,281	255	12,747	245,276	44,751	2,603	292,630
Janitorial and housekeeping	(9,516)	37	19	16	12,591	2	32	3,181	297	1,149	4,627
Building insurance	98,301	5,117	18,551	5,954	96,131	6,177	7,227	237,458	2,246	10,388	250,092
Professional services	622,535	7,016	70,682	55,450	285,888	37,543	15,216	1,094,330	187,394	44,498	1,326,222
Program and office expense	781,002	11,779	52,727	31,053	1,895,779	28,084	28,940	2,829,364	247,498	25,856	3,102,718
Travel and transportation	27,877	11	52,876	575	35,163	10,785	4	127,291	18,751	2,643	148,685
Specific assistance to individuals	2,816	-	-	-	2,624	18,398	-	23,838	620	2,502	26,960
Field trips	10,706	14,692	-	-	2,729	-	-	28,127	-	-	28,127
Bad debt expense	-	-	-	-	-	-	-	-	22,694	-	22,694
Total expense before depreciation	<u>4,729,978</u>	<u>200,023</u>	<u>900,714</u>	<u>247,145</u>	<u>6,197,650</u>	<u>287,976</u>	<u>555,189</u>	<u>13,118,675</u>	<u>1,609,159</u>	<u>290,069</u>	<u>15,017,903</u>
Depreciation	112,957	71,862	52,802	14,845	54,686	723	-	307,875	412,407	623	720,905
Total expenses	<u>\$ 4,842,935</u>	<u>\$ 271,885</u>	<u>\$ 953,516</u>	<u>\$ 261,990</u>	<u>\$ 6,252,336</u>	<u>\$ 288,699</u>	<u>\$ 555,189</u>	<u>\$ 13,426,550</u>	<u>\$ 2,021,566</u>	<u>\$ 290,692</u>	<u>\$ 15,738,808</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (1,318,970)	\$ 1,158,523
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	845,028	720,905
Early extinguishment of debt	-	(350,000)
Interest and dividends received, net of fees	(26,073)	(22,154)
Unrealized loss/(gain) on investment, net	(12,586)	(85,914)
Realized loss/(gain) on investment, net	(26,524)	(24,574)
Bad debt expense	19,478	22,694
(Increase) decrease in operating assets:		
Accounts receivable	103,414	135,132
Promises to give	207,617	128,179
Prepaid expenses	87,979	76,589
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	764,134	(979,112)
Net cash provided by operating activities	<u>643,497</u>	<u>780,268</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(81,618)	(1,711,137)
Net change in cash held for acquisition of property	46,074	744,549
Purchase of investments, net	(214,090)	(50,455)
Proceeds from sale of investments, net	141,193	52,314
Net cash used by investing activities	<u>(108,441)</u>	<u>(964,729)</u>
Cash flows from financing activities:		
Borrowings under line of credit	176,380	812,132
Repayments of line of credit	(207,325)	(1,020,760)
Repayments of long-term debt	(145,033)	(86,019)
Net cash (used) provided by financing activities	<u>(175,978)</u>	<u>(294,647)</u>
Net increase (decrease) in cash	359,078	(479,108)
Cash and cash equivalents at beginning of year	<u>422,975</u>	<u>902,083</u>
Cash and cash equivalents at end of year	<u>\$ 782,053</u>	<u>\$ 422,975</u>

See accompanying Notes to Combined Financial Statements.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

1) Nature of activities

Kingsley House, Inc. and Affiliates (the “Organization”) is a not-for-profit corporation and is a United Way agency serving Southeast Louisiana. The Organization obtains funds from state and federal governmental grants and private donor contributions. The affiliates of the Organization include Kingsley House Foundation, Inc. and 1542 Constance Street, Inc.

Kingsley House Foundation, Inc. (the “Foundation”) is a Louisiana not-for-profit entity which was organized on May 28, 2013 for the purpose of serving as the fundraising arm to Kingsley House, Inc. The Foundation is considered a supporting organization under Internal Revenue Code 509(a)(3). The Foundation is governed by a board of directors with at least 60% of the board being comprised of Kingsley House, Inc. board members.

1542 Constance Street, LLC was formed on August 6, 2013 for the purpose of building the Patrick F. Taylor campus (the “Project”) located at municipal address 901 Richard Street, directly across from the Organization’s main campus. The Organization serves as the sole member of the entity and is responsible for its management. During the fiscal year ended June 30, 2014, the Organization acquired 4.2 acres of land adjacent to the Organization’s main campus upon which it has constructed a 24,000 square foot facility at an estimated project cost, inclusive of the land acquisition, of approximately \$12.5 million to serve more than 300 infants, toddlers, seniors and medically fragile adults. The facility was opened in August 2016.

On January 23, 2015, 1542 Constance Street, LLC was changed to a corporation, 1542 Constance Street, Inc., for the purpose of securing New Markets Tax Credits (“NMTCs”) (Note 13) related to construction of a new facility to serve the community.

In anticipation of the Project, The Organization formed the Foundation discussed above. The Foundation began a 2013 Capital Campaign to fund, in part, the Project and also to provide for ongoing operational and maintenance costs of the Project and the Organization’s main campus. This Capital Campaign continued through 2017. The financing for the Project is a mixture of New Markets Tax Credits, a state Office Community Development Project-Based Recovery Opportunity Program Loan, and a grant from Kingsley House. Construction began in 2015 and was completed in August of 2016.

Programs provided by the Organization are as follows:

Head Start - A state licensed Head Start center is provided for 339 children.

Early Head Start – A state licensed Early Head Start center for 220 children. For the first time in the Organization’s history, the Organization has become an Early Head Start/Child Care Partnership Start grantee. Through a competitive grant process, in December of 2014 the Organization was selected as one of four grantees in the state of Louisiana. This established the Organization as a grantee for a additional 150 infants and toddler slots amongst 9 child care partners. In addition, in July of 2015, the Organization was selected as one of three Head Start/Early Head Start grantees in the New Orleans Area. The combined grant allows the Organization to operate the most diverse model in the State of Louisiana.

Adult Day Health Care The Organization operates an adult day health care program for 84 elderly or disabled adults and a senior center for persons over 60 years old.

Participant Meals Program – The Organization operates two full kitchens to prepare and serve breakfast, lunch, and snacks to participants in the Head Start, Early Head Start, Youth Program and Adult Day Health Care programs.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

1) Nature of activities (continued)

Community and Supportive Services – The Organization provides intensive case management services for former St. Bernard Housing Development residents as they resettle in a redeveloped mixed income community. On June 1, 2015, the Organization entered into a grant with the Safe Exchange Program and the City of New Orleans to provide services for domestic violence, child abuse, and sexual harassment.

Youth Program – The Organization operates a full day summer camp program.

Community Counseling Center – Following Hurricane Katrina, the Organization developed a program to help families recover from the effects of Hurricane Katrina by providing intense in-home counseling and conducting outreach activities designed to respond to medical and nutritional needs of individuals and families.

2) Summary of significant accounting policies

The significant accounting policies followed by the Organization are summarized as follows:

(a) Financial statement presentation

The Organization's policy is to prepare its financial statements on the accrual basis of accounting, which recognizes all revenues and the related assets when earned and all expenses and the related obligations when incurred.

The accompanying combined financial statements present the combined statements of financial position, changes in net assets, functional expenses, and cash flows of Kingsley House, Inc., Kingsley House Foundation, Inc. and 1542 Constance Street, Inc. (together referred to as the "Organization"). All significant inter-company accounts and transactions have been eliminated.

(b) Basis of presentation

Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") 958, *Financial Statements for Not-for-Profit Entities*, requires the net assets and changes in net assets be reported for three classifications – permanently restricted, temporarily restricted and unrestricted based on the existence or absence of donor imposed restrictions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor imposed restrictions or requirements that limit the use of the donation. A donor restriction ends when a time restriction is met or a purpose restriction is accomplished. As restrictions are met, assets are reclassified to unrestricted net assets.

(c) Designation of unrestricted net assets

It is the policy of the Board of Directors of the Organization to review its plan for future property improvements and acquisitions from time to time and to designate certain amounts to ensure adequate financing of such improvements and acquisitions.

(d) Revenue recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

2) Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises to give receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

(e) Donated services

The Organization recognizes the fair value of donated services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not donated. The programs for which the donated services were used are reflected in the schedules below.

The Organization has recorded \$1,439,283 and \$900,980 in the Head Start and Early Head Start programs for donated services for the years ended June 30, 2018 and 2017, respectively. These services include:

	<u>2018</u>	<u>2017</u>
Volunteers	\$ 1,364,250	\$ 724,876
Professional services	1,277	110,263
Supplies	35,660	61,782
Other	38,096	4,059
Total donated services	<u>\$ 1,439,283</u>	<u>\$ 900,980</u>

The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs, but which do not meet the criteria for financial statement recognition. The Organization received 79,541 and 40,259 volunteer hours for the years ended June 30, 2018 and 2017, respectively.

(f) Donated assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions over the useful life of the donated asset. The Organization reclassifies temporarily restricted net assets to unrestricted net assets over such useful life.

(g) Functional expenses

Expenses are charged to each program directly when the charge is identified to the program. Program expenditures which cannot be directly identified to a program are allocated based on square footage, usage statistics, employees, and ratio of program expenses to total expenses as appropriate. Supporting services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

2) Summary of significant accounting policies (continued)

(g) Functional expenses (continued)

Expenses are allocated among the various program services and general and administrative categories based on actual use or management's best estimate in the combined statements of functional expenses.

(h) Cash and cash equivalents

All cash-related items having a maturity of three months or less from the original maturity date are classified as cash and cash equivalents.

(i) Investments

Investments in equity securities with readily determinable fair values are reported at their fair values in the combined statements of financial position. Unrealized gains and losses are included in the change in net assets. Investments with a maturity of one year or less are classified as current.

(j) Accounts receivable

Accounts are considered overdue if uncollected within ninety days of original invoice. The Organization considers grant receivables to be fully collectible and when a balance becomes uncollectible, they are written off. No allowance for uncollectible account has been provided, as management has evaluated the accounts and believes they are all collectible.

(k) Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises are recorded when all conditions have been met. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

(l) Pledges receivable

Pledges receivable consists of unconditional promises to give that are expected to be collected in future years and are recorded at the present value of their estimated future cash flows.

An allowance for uncollectible accounts has been maintained for estimated losses resulting from the inability of its donors to make required payments. The Organization's estimate for the allowance for doubtful accounts is based on a review of the current pledge receivable. Pledges receivable is presented net of an allowance for doubtful accounts of \$87,923 and \$117,657 as of June 30, 2018 and 2017, respectively.

As of June 30, 2018 and 2017, promises to give consisted of:

	<u>2018</u>	<u>2017</u>
United Way	\$ 136,406	\$ 139,687
Donors	383,631	637,179
Less allowance for doubtful pledges	<u>(87,923)</u>	<u>(117,657)</u>
Net pledges receivable	<u>\$ 432,114</u>	<u>\$ 659,209</u>

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

2) Summary of significant accounting policies (continued)

(m) Property and equipment

Property and equipment are carried at cost. Depreciation of property is provided over the estimated useful lives of the assets using the straight-line method. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the assets carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. The estimated useful lives of depreciable assets are:

	<u>Useful Lives</u>
Building	5 to 25 years
Improvements	10 to 25 years
Transportation equipment	5 years
Furniture fixtures and equipment	5 to 25 years

(n) Fundraising

All expenses associated with fundraising events are expensed as incurred.

(o) Use of estimates

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

(p) Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. The Organization has not experienced any losses in such accounts. The Organization has no policy requiring collateral or other security to support its deposits.

3) Income taxes

Kingsley House, Inc. is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Kingsley House Foundation, Inc. is exempt from income taxes under Section 509(a)(3) of the U.S. Internal Revenue Code. 1542 Constance Street, Inc. is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code.

The Organization adopted the provisions of ASC 740, Income Taxes. Management of the Organization believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits. With few exceptions, the Organization is not subject to U.S. federal and state income tax examinations by tax authorities beyond three years from the filing of those returns.

4) Noncurrent assets

As of June 30, 2018 and 2017, \$176,876 and \$222,950, respectively, of cash was held for acquisition of property and donor restricted purposes for the construction of the Patrick F. Taylor campus and related interest and fees.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

5) Property and equipment, net

Property and equipment is summarized as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,095,967	\$ 1,095,968
Building	20,494,593	20,494,593
Improvements	174,888	174,889
Furniture, fixtures and equipment	1,258,004	1,176,384
Transportation equipment	335,719	335,719
Total costs	<u>23,359,171</u>	<u>23,277,553</u>
Less: accumulated depreciation	<u>9,044,828</u>	<u>8,199,800</u>
Property and equipment	<u>\$ 14,314,343</u>	<u>\$ 15,077,753</u>

For the years ended June 30, 2018 and 2017, depreciation expense was \$845,028 and \$720,905, respectively.

6) Notes receivable

A leveraged loan agreement was executed on March 10, 2015 between an affiliate of the Federal NMTCs Investor and Kingsley House, Inc. in the amount of \$5,348,000 maturing June 30, 2039 with interest of 1.00%. Principal and interest is receivable quarterly beginning March 15, 2022. The Federal NMTCs Investor has pledged and granted a security interest to Kingsley House, Inc. for substantially all assets of its entities involved in the financing transactions on the closing date. The leveraged loan collaterally assigns all present and future payments, distributions (cash or otherwise), proceeds, profits, income, compensation, property, assets and rights due or to become due and payable to Kingsley House, Inc. in connection with all of the Federal NMTCs Investor's membership interest.

7) Endowment

The Organization's endowment consists of donor restricted funds. The Organization has granted the Greater New Orleans Foundation (the "GNO Foundation") the authority to administer and manage the endowment funds in accordance with the Greater New Orleans Foundation's investment policy and guidelines as noted below. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

7) Endowment (continued)

with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The primary financial objective for the GNO Foundation is to increase the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of investment management. Endowment assets are invested in a well-diversified asset mix, which includes equity securities, fixed income securities and alternative investments that is intended to meet this objective. The GNO Foundation has established a 5% real rate of return objective for the GNO Foundation's portfolio. Actual returns in any given year may vary from this amount. Investment assets and allocation between asset classes and strategies are managed to not expose the endowment assets to unacceptable levels of risk.

Spending Policy. The GNO Foundation follows a Total Return Spending Policy for its endowment funds. Endowment funds are invested for maximum total return (within acceptable risk parameters), without distinction between income and capital gains. The market value of the fund is measured over the past 12 quarters, and a percentage of the average of those values is made available for grants. This method appropriately puts the focus on the long-term growth of the fund. This, in turn, encourages the appropriate use of equities in the fund, helping the fund to grow at a rate greater than inflation. The annual percentage for 2018 and 2017 distributions were 4%. This percentage is evaluated each year and adjusted as necessary.

The composition of endowments by net asset class at June 30, 2018 and 2017 was:

	Permanently Restricted - Donor Restricted 2018	Permanently Restricted - Donor Restricted 2017
	<u>2018</u>	<u>2017</u>
Endowment net assets, beginning of year	\$ 81,095	\$ 78,066
Investment income	581	550
Realized / unrealized gain	6,293	6,375
Contributions	-	-
Subtotal	<u>87,968</u>	<u>84,991</u>
Grants	3,227	3,243
Administrative expenses	<u>586</u>	<u>653</u>
Endowment net assets, end of year	<u>\$ 84,155</u>	<u>\$ 81,095</u>

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

8) Board designated endowment

As of June 30, 2018 and 2017, the Board of the Organization had designated \$248,163 and \$223,908, respectively, of restricted net assets as a general endowment fund to support the mission of the Organization. Since the amount resulted from restricted donations and is donor-restricted, it is classified and reported as permanently restricted net assets.

The Organization has a spending policy of maintaining realized gains and losses, and investment earnings within the endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Organization has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity funds and corporate bonds. Accordingly, the Organization expects its endowment assets, over time, to produce a positive average rate of return annually. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Composition of and changes in endowment net assets for the years ended June 30, 2018 and 2017 were as follows:

	Permanently Restricted - Donor Restricted 2018	Permanently Restricted - Donor Restricted 2017
Endowment net assets, beginning of year	\$ 223,908	\$ 196,365
Investment income	4,763	4,757
Realized / unrealized gain	19,492	22,786
Contributions	-	-
Subtotal	<u>248,163</u>	<u>223,908</u>
Grants	-	-
Administrative expenses	-	-
Endowment net assets, end of year	<u>\$ 248,163</u>	<u>\$ 223,908</u>

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

9) Investments

Investments are carried at fair value and consist of the following at June 30, 2018 and 2017:

	<u>Costs</u>	<u>2018 Fair Value</u>	<u>2017 Fair Value</u>
Endowment Fund Investments	\$ 59,035	\$ 84,155	\$ 81,095
Board Designated Endowment	129,412	248,163	223,908
Other investments		1,219,631	1,108,866

A summary of return on investments consists of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Endowment Fund Investments		
Investment income	\$ 581	\$ 550
Realized / unrealized gain	6,293	6,375
Board Designated Endowment		
Investment income	4,763	4,757
Realized / unrealized gain	19,492	22,786
Other Investments		
Investment income	29,915	25,861
Realized / unrealized gain	79,547	89,554

10) Lines of credit

The Organization has a \$400,000 line of credit with a financial institution at an annual variable interest rate (6.25% at June 30, 2018) and is unsecured. The line of credit matures August 3, 2019. The amount outstanding under the line of credit was \$363,562 and \$261,982 at June 30, 2018 and 2017, respectively.

A second line of credit was secured from a second financial institution for the Foundation in the amount of \$500,000 during fiscal year 2014 at an annual variable interest rate. The line of credit matured January 24, 2018. The line of credit is secured by pledges receivable (promises to give) of the Foundation. The amount outstanding balance under the line of credit was \$132,525 at June 30, 2017. The line of credit was paid off in 2018.

A third line of credit was secured from a financial institution for the Foundation in the amount of \$500,000 at an annual variable interest rate. The line of credit matures January 30, 2019. The Foundation had no outstanding balance on the line of credit at June 30, 2018. The line of credit is secured by pledges receivable (promises to give) of the Foundation.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

11) New markets tax credit

The Facility A and B notes are intended to qualify as a “qualified low-income community investment” (QLICD) for the purposes of generating certain tax credits called New Markets Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, the Organization must comply with certain representations, warranties, and covenants. These include, but are not limited to, a covenant that the “portion of the business” (as defined) will operate to qualify as a qualified low-income community business (a “QALICB”). If, as a result of the breach of the agreement or loan documents by the Organization, JPMorgan Chase Bank, N.A. (“JPMC”), sole member of Chase Community Equity, LLC (Fund Member), sole member of Chase NMTC Kingsley Investment Fund, LLC (the “Fund”), is required to recapture all or any part of the NMTCs previously claimed. 1542 Constance Street, Inc. (“Project Borrower”) and Kingsley House, Inc. (“Sponsor”) agree to indemnify JPMC the NMTCs Recapture Amount. Additionally, the Lenders have a security interest in the assets of the Organization other than real property.

On March 10, 2015, the Project Borrower issued two Facility A promissory notes payable and two Facility B promissory notes payable to the lenders. The notes are subject to credit and loan agreements executed by the Project Borrower, as the QALICB under the NMTCs Program, and the lender.

LIIF CDE Loan A1 (A1 Note) was issued for \$4,345,250 and is secured under the aforementioned credit and loan agreements. The A1 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the A1 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

CNMC CDE Loan A2 (A2 Note) was issued for \$1,002,750 and is secured under the aforementioned credit and loan agreements. The A2 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the A2 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

LIIF CDE Loan B1 (B1 Note) was issued for \$1,959,750 and is secured under the aforementioned credit and loan agreements. The B1 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the B1 Note in full or in part any time prior to the expiration of the NMTCs compliance period.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

11) New markets tax credit (continued)

CNMC CDE Loan B2 (B2 Note) was issued for \$497,250 and is secured under the aforementioned credit and loan agreements. The B2 Note matures on December 31, 2044. The note bears interest at a rate per annum equal to 1.1%. The Project Borrower will pay interest only on this note quarterly in arrears on March 5, June 5, September 5, and December 5 of each year, commencing June 5, 2015, and continuing until March 5, 2022. The Project Borrower shall pay amortized principal and interest payments starting June 5, 2022. The Project Borrower may not prepay the B2 Note in full or in part any time prior to the expiration of the NMTC's compliance period.

At the end of the seven year Tax Credit Investment Period, March 10, 2022 and ending 90 days thereafter (Put Option Period), the Fund Member may exercise a put option whereby the Investment Fund will sell its interest in the NMTCs Facilities to the Organization for the put price of \$1,000. In the event the Fund Member does not exercise the put and the Organization remains in compliance with the loan terms and the NMTCs rules and regulations, the Organization may exercise a call option during the 90 days following the end of the Put Option Period to purchase the Membership Interest of the Fund Member for an amount equal to the fair market value of the Membership Interest determined by mutual agreement of the parties or qualified independent appraiser.

12) Long-term debt

1542 Constance Street, Inc. had a promissory note payable to a private foundation in the amount of \$400,000 as of June 30, 2016. In August of 2016, this entire outstanding note of \$350,000 was forgiven by the holder.

During fiscal year 2016, 1542 Constance Street, Inc. began drawing down on its long-term debt for construction of the new campus. A loan agreement was executed on March 10, 2015 between the State of Louisiana, Division of Administration, Office of Community Development and the Organization in the amount of \$2,000,000 bearing interest at 1.00%, and maturing March 10, 2030. Principal and interest payments are due monthly in arrears commencing March 10, 2017, and continuing until March 10, 2030. As of June 30, 2017, the loan was drawn in full.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

12) Long-term debt (continued)

Long-term debt of the Organization at June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
New Markets Tax Credit- LIIF Sub-CDE XXXI, L.L.C. QLICI A loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	\$ 4,345,250	\$ 4,345,250
New Markets Tax Credit- CNMC Sub-CDE 77, L.L.C. QLICI A loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	1,002,750	1,002,750
New Markets Tax Credit- LIIF Sub-CDE XXXI, L.L.C. QLICI B loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	1,959,750	1,959,750
New Markets Tax Credit- CNMC Sub-CDE 77, L.L.C. QLICI B loan. Interest is payable quarterly at a rate of 1.1%. Principal amortization begins April 1, 2022 with the first amortization payment due on June 5, 2022. The note matures in December 31, 2044.	497,250	497,250
Note Payable - Interest is payable monthly at a rate of 1.0% beginning on September 10, 2016. Principal payments began on March 10, 2017. The note matures in March 10, 2030.	<u>1,818,948</u>	<u>1,963,981</u>
Total long-term debt	9,623,948	9,768,981
Less current portion	<u>146,087</u>	<u>145,033</u>
Long-term debt, less current portion	<u>\$ 9,477,861</u>	<u>\$ 9,623,948</u>

KINGSLEY HOUSE, INC. AND AFFILIATES
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For the Years Ended June 30, 2018 and 2017

12) Long-term debt (continued)

The maturities of long-term debt are as follows:

2019	\$	146,087
2020		147,613
2021		149,155
2022		150,713
2023		152,287
Thereafter		8,878,093

13) Board designations

It is the policy of the Board of Directors of the Organization 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, the Organization had board-designated funds totaling \$1,817,989 and \$1,616,963, respectively, in unrestricted cash and investments on the combined statements of financial position.

14) Temporarily restricted net assets

The restrictions on net assets as of June 30, 2018 relate to United Way funding for next year restricted to program functions for 2019.

Substantially all of the restrictions on net assets as of June 30, 2017 relate to funds raised through the Second Century Campaign and Capital Campaign, United Way funding restricted to program functions for 2018 and purchasing and improving equipment and facilities.

15) Permanently restricted net assets

The Organization began receiving donations with the intentions of creating a permanent endowment in 2001. The Organization established the endowment funds with the intent to preserve the fair value of the original gift absent explicit donor stipulations to the contrary. As a result, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, and the original value of subsequent gifts to the permanent endowment. The Organization maintains realized and unrealized gains and losses within the endowment. As of June 30, 2018 and 2017, permanently restricted net assets were \$332,318 and \$319,422, respectively.

16) Operating leases

Kingsley House, Inc. leases space from 1542 Constance Street, Inc. for its program needs. The lease runs through March 2046. Total rent expense under the lease was \$66,000 for the years ended June 30, 2018 and 2017. The rent expense associated with this lease agreement has been eliminated on the combined statement of activities.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

16) Operating leases (continued)

Future minimum rental payments under the lease are as follows:

2019	\$	66,000
2020		66,000
2021		66,000
2022		201,712
2023		505,000
Thereafter		11,500,968

The Organization also leases a service facility under a lease agreement accounted as an operating lease. The lease runs through January 2021. Total rent expense under the lease was \$30,288 and \$31,499 for the years ended June 30, 2018 and 2017, respectively.

Future minimum rental payments under the lease are as follows:

2019	\$	31,499
2020		32,759
2021		19,546

17) Fair value measurement

Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

17) Fair value measurement (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Equities, certain Fixed Income Funds and certain Money Market Funds: Valued at the closing price reported on the active market on which the individual securities are traded. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics.

Corporate Bonds, Fixed Income Bond Funds, and Mortgage backed Securities: Valued at the present value of the expected future cash flows utilizing the minimum risk free rate of return. The valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Money Market Funds and Mutual Funds: Valued at the net asset value of the shares held at year end.

Other Investments: Included in other investments are Private Equity Funds, Limited Liability Entities, Hedge Funds, and Pooled Investment Funds. These investments are valued based upon the units held at year-end multiplied by the respective unit value. The unit value is based upon significant observable inputs, although it is not based upon quoted marked prices in an active market. The underlying investments consist primarily of equity securities, debt obligations, short-term investments and other marketable securities. In accordance with ASC 820-10, these investments are not classified in the fair value hierarchy.

Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

17) Fair value measurement (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

Assets at Fair Value as of June 30, 2018				
	Level 1	Level 2	Level 3	Total
Equity Funds	\$ 1,048,540	\$ -	\$ -	\$ 1,048,540
Corporate Bonds	-	338,729	-	338,729
Fixed Income Bond Funds	-	8,386	-	8,386
Money Market Funds	101,579	-	-	101,579
	-	-	-	-
Total assets at fair value	\$ 1,150,120	\$ 347,115	\$ -	\$ 1,497,235
Investments recorded at NAV as practical expedient				54,714
				\$ 1,551,949

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017:

Assets at Fair Value as of June 30, 2017				
	Level 1	Level 2	Level 3	Total
Equity Funds	\$ 651,013	\$ -	\$ -	\$ 651,013
Mutual Funds	275,922	-	-	275,922
Corporate Bond Funds	-	405,425	-	405,425
Money Market Funds	55,448	-	-	55,448
Fixed Income Bond Funds	-	\$ 8,583	-	8,583
	-	-	-	-
Total assets at fair value	\$ 982,383	\$ 414,008	\$ -	1,396,391
Investments recorded at NAV as practical expedient				17,478
				\$ 1,413,869

18) Economic dependence

For the year ended June 30, 2018, approximately 74% of the Organization's revenues came from governmental contracts, 7% from foundations and corporate contracts, and 4% came from contributions.

For the year ended June 30, 2017, approximately 79% of the Organization's revenues came from governmental contracts, 6% from foundations and corporate contracts, and 4% came from contributions.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

18) Economic dependence (continued)

Historically, the Organization has received Early Head Start and Head Start funding as a delegate agency through Total Community Action, the U.S. Department of Health and Human Services grantee for Orleans Parish. In response to an open, competitive application process, the Organization submitted an application to become one of up to five grantees in Orleans Parish. The federal grant was effective July 2015, and the Organization became a direct grantee.

19) Employee benefit plan

The Organization maintains a 403(b) retirement plan for the benefit of all eligible employees, whereby the employees may elect to defer compensation pursuant to a salary reduction agreement. The Organization contributes a match as described in the plan documents. Contributions for the period July 1, 2016 through June 30, 2018 were based on 3.5% of plan participants' salaries. Total retirement plan expense was \$196,016 and \$160,959 for the years ended June 30, 2018 and 2017, respectively.

20) Commitments and contingencies

Kingsley House, Inc. is the guarantor in a New Markets Tax Credit Indemnity Agreement between 1542 Constance Street, Inc. and a lender. Should a recapture event occur, Kingsley House, Inc. could be obligated to pay the recapture amount according to the agreement. Management believes there are no breaches of the agreement as of June 30, 2018.

Kingsley House Foundation, Inc. is a guarantor in a credit agreement between Kingsley House, Inc. and a lender. The note payable balance at June 30, 2018 and 2017 were \$1,818,948 and \$1,963,981, respectively.

Any breach of the loan agreement between 1542 Constance Street, Inc. and CNMC Sub-CDE 77 and LIIF Sub-CDE XXXI, LLC, LLC may require the Organization to pay a recapture amount according to the agreement. Management believes there are no breaches of the agreement as of June 30, 2018.

The Organization is contractually committed to spend \$1,435,000 associated with the purchase of land located at 1542 Constance Street for environmental remediation costs. If remediation costs are less than the committed amount or the amount is not expended by August 2018, the Organization is required to remit to the seller any shortfall. As of December 31, 2016, the Organization fulfilled its commitment.

The Organization received a portion of its revenue from government grants, which are subject to audit by the respective funding source. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by such governmental units. Until such audits have been completed and final settlement is reached, there exists a contingency to refund any amount received in excess of allowance costs. Management is of the opinion that no material liability will result from any such audits.

During fiscal year 2014, the Organization partnered with Bayou District Foundation (a local nonprofit organization) and Educare New Orleans (a national nonprofit organization) to operate an early childhood program. The Organization has an agreement to manage and operate the program from September 2013 through June 2019. The Organization receives fees on a reimbursement basis plus a management fee to operate the program.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

20) Commitments and contingencies (continued)

The Organization entered a cooperative endeavor agreement with the State of Louisiana Division of Administration Office of Facility, Planning, and Control (“FP&C”) for capital outlay primarily related to the planning and construction of a new facility for the Organization. Pursuant to this agreement, capital outlay funding of approximately \$6.5 million (of which \$6.3 million has been designated to the project discussed in Note 1) has been awarded for planning, construction, miscellaneous and FP&C administrative costs to be provided on an as-needed basis as approved by the FP&C. As of June 30, 2017, the full amount has been collected from FP&C and expended on the project.

21) Council on Aging

Contracts with the New Orleans Council on Aging from the Governor’s Office of Elderly Affairs are as follows:

	<u>2018</u>	<u>2017</u>
Revenues	\$ 47,749	\$ 47,749
Expenses:		
Compensation and related expenses	47,200	26,989
Operating services	<u>549</u>	<u>20,760</u>
	<u>\$ -</u>	<u>\$ -</u>

22) New accounting pronouncements

FASB has issued ASU No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." Under the ASU, the number of net asset classes is decreased from three to two; enhanced disclosures of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how an entity manages its liquid available resources and liquidity risks is required. This standard is effective for fiscal years beginning after December 15, 2017.

FASB has issued ASU No. 2014-09, "Revenue from Contracts with Customers," to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This standard will be effective for periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." 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. The updated guidance is effective for annual periods beginning after December 15, 2019.

The Organization is currently assessing the impact of these pronouncements on its financial statements and has elected to not early adopt any of these standards.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

23) Subsequent events

Management has evaluated subsequent events through the date of the auditors' report, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosures in these combined financial statements.

UNIFORM GUIDANCE COMPLIANCE AND
GOVERNMENT AUDITING STANDARD REPORTS



WEGMANN DAZET & COMPANY

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
Kingsley House, Inc. and
Affiliates
New Orleans, 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 combined financial statements of Kingsley House, Inc. and Affiliates (the Organization), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered 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 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Organization's combined 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.

Metairie, Louisiana
December 21, 2018

Wegmann Dazet + Company



WEGMANN DAZET & COMPANY

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors
Kingsley House, Inc. and
Affiliates
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited Kingsley House, Inc. and Affiliates' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 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 each major federal program. However, our audit does not provide a legal determination of Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Kingsley House, Inc. and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Metairie, Louisiana
December 21, 2018

Wegmann Dazet + Company

KINGSLEY HOUSE, INC. AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Health and Human Services			
Head Start/Early Head Start	93.600	06CH01015203	\$ 2,433,907
Head Start/Early Head Start	93.600	06CH01015204	4,763,687
Early Head Start Child Care Partnership	93.600	06HP0027/02	283,387
Early Head Start Child Care Partnership	93.600	06IIP0027/03	1,874,072
Total U.S. Department of Health and Human Services			9,355,053
U.S. Department of Agriculture			
Louisiana Department of Education			
Child and Adult Care Food Program			
Preschool/ Early Head Start/School Age/Adult	10.558	CC93-432	468,168
Emergency Food and Shelter Program	97.024	365800-060	5,232
Total Expenditures of Federal Awards			\$ 9,828,453

See accompanying Notes to Schedule of Expenditures of Federal Awards.

KINGSLEY HOUSE, INC. AND AFFILIATES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Note 1 General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Kingsley House, Inc. and Affiliates. The reporting entity is defined in Note 1 to Kingsley House, Inc. and Affiliates combined financial statements. All federal award programs received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 Basis of accounting

The accompanying Schedule of Expenditures of Federal Awards 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)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Kingsley House, Inc. and Affiliates has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

Note 3 Risk-based audit approach

The dollar threshold used to distinguish between Type A and Type B programs is \$750,000. The Organization does not qualify as a low-risk auditee.

Note 4 Possible ineligible, disallowed and questioned costs

Kingsley House, Inc. and Affiliates is subject to audit(s) and investigation(s) by state and federal agencies or their designees for compliance with contractual and programmatic requirements with regard to funding provided to Kingsley House, Inc. and Affiliates. The determination of whether any instances of noncompliance that will ultimately result in remittance by Kingsley House, Inc. and Affiliates of any ineligible or disallowed costs cannot be presently determined.

KINGSLEY HOUSE, INC. AND AFFILIATES
SUMMARY OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEADS
For the Year Ended June 30, 2018

SUMMARY OF COMPENSATION

Keith Liederman
CEO

*No agency head expenses were derived from state and/or local assistance.



KINGSLEY HOUSE, INC. AND AFFILIATES
STATEWIDE AGREED-UPON PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2018



WEGMANN DAZET & COMPANY

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of
Kingsley House, Inc. and Affiliates
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Kingsley House, Inc. and Affiliates (Entity) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2017 through June 30, 2018. The Entity's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. 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 associated 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) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

We performed the procedures noted above and noted no exceptions.

b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

We performed the procedures noted above and noted no exceptions.

c) ***Disbursements***, including processing, reviewing, and approving.

We performed the procedures noted above and noted no exceptions.

d) ***Receipts/Collections***, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

We performed the procedures noted above and noted no exceptions.

- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

We performed the procedures noted above and noted no exceptions.

- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

We performed the procedures noted above and noted no exceptions.

- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

We performed the procedures noted above and noted no exceptions.

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

We performed the procedures noted above and noted no exceptions.

Bank Reconciliations

- 2. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the Entity's main operating account. Select the Entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

We performed the procedures noted above and noted no exceptions.

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

We performed the procedures noted above and noted of the five reconciliations tested two were signed and dated, one was signed and not dated and the remaining two were neither signed nor dated.

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

We performed the procedures noted above and noted one bank reconciliation with three checks over a year old that showed no support of the items being researched.

Management Response:

2 b) The Organization does have a policy in place where all bank reconciliations are reviewed by management. During 2018, the bank reconciliation process switched from manual reconciliations to reconciliations prepared inside of the accounting software. Also, there were some changes in personnel in 2018. These factors contributed to a couple of bank reconciliations missing the

manager's approval signature. The Organization will ensure that approval is documented on all reconciliations moving forward.

2 c) The Organization does have a policy in place where all items outstanding more than 12 months are researched. During 2018, the bank reconciliation process switched from manual reconciliations to reconciliations prepared inside of the accounting software. Also, there were some changes in personnel in 2018. These factors contributed to a three outstanding checks not being researched in a timely manner. The Organization will ensure that outstanding items are researched in a timely manner moving forward.

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

3. 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.

We performed the procedures noted above and noted no exceptions.

4. 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.]

We performed the procedures noted above and noted no exceptions.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

We performed the procedures noted above and noted no exceptions.

5. Using the monthly statements or combined statements selected under #4 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).

We performed the procedures noted above and noted no exceptions.

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 those C/C areas identified in the SAUPs. 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 those C/C areas identified in the SAUPs, 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 LLA as a public document.

December 21, 2018

Wegmann Dazet + Company