
SOUTH LOUISIANA CHARTER FOUNDATION, INC.
BATON ROUGE, LOUISIANA

FINANCIAL STATEMENTS

JUNE 30, 2018



Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
BATON ROUGE, LOUISIANA

FINANCIAL STATEMENTS

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors for
South Louisiana Charter Foundation, Inc.
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the South Louisiana Charter Foundation (The Foundation), a nonprofit organization, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 The Foundation 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.



Dissolution of East Baton Rouge Charter Academy at Mid-City

As discussed in Note 10, the charter school agreement between the East Baton Rouge Charter Academy at Mid-City and the Louisiana Board of Secondary Education was revoked on December 16, 2016, effective at the end of the 2016/2017 school year. Based on the terms of the agreement, all capital assets reverted back to the State of Louisiana at the close of the prior fiscal year ended June 30, 2017. Any other remaining assets, including cash, will be reverted back to the State of Louisiana during the fiscal year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining statement of financial position, combining statement of activities and changes in net assets, and the schedule of compensation, benefits and other payments to board president presented on page 15, as well as the schedule of expenditures of federal awards presented on pages 20 - 21, required by Uniform Guidance, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The performance and statistical data on pages 36-37 are presented as supplementary information required by Louisiana State Law and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matter

As discussed in Note 5 to the financial statements, a significant part of the Foundation's revenue is dependent upon Minimum Foundation Program (MFP) funding from the Louisiana Department of Education. The loss or significant reduction of state programs funding could have a material adverse effect on the Foundation's operations.

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 the Foundation'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 the Foundation's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
December 21, 2018

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

CURRENT ASSETS:

| | | |
|----------------------------|----|-----------|
| Cash | \$ | 616,319 |
| Cash - restricted | | 44,929 |
| Grants receivable: | | |
| Federal programs | | 673,414 |
| Other receivables | | 60,873 |
| Due from CSUSA affiliate | | 1,794,657 |
| Prepaid expenses and other | | 16,555 |
| Total current assets | | 3,206,747 |

PROPERTY AND EQUIPMENT (NET):

19,853,352

NON-CURRENT ASSETS:

| | | |
|--------------------------|--|--------|
| Utility deposit | | 32,553 |
| Total non-current assets | | 32,553 |

Total assets \$ 23,092,652

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

| | | |
|---|--|-----------|
| Accounts payable | | 53,972 |
| Accrued payroll and related expenses | | 404,387 |
| Accrued other expenses (see note 10) | | 193,481 |
| Due to CSUSA | | 2,066,795 |
| Due to other schools | | 12,602 |
| Accrued interest payable - short term portion | | 514,488 |
| Capital lease payable - short term portion | | 236,448 |
| Deferred revenues | | 1,766 |
| Funds held in custody | | 70,962 |
| Total current liabilities | | 3,554,901 |

LONG TERM LIABILITIES:

| | | |
|-----------------------------|--|------------|
| Accrued interest payable | | 1,469,364 |
| Capital lease payable | | 23,233,535 |
| Total long-term liabilities | | 24,702,899 |

NET DEFICIT:

| | | |
|-------------------|--|-------------|
| Unrestricted | | (5,165,148) |
| Total net deficit | | (5,165,148) |

Total liabilities and net deficit \$ 23,092,652

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

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

Revenue, Grants and Other Support

| | |
|---|---------------|
| Minimum Foundation Program (MFP) | \$ 10,511,653 |
| Federal grants | 1,020,610 |
| State grants | 3,813 |
| Paid meals | 366 |
| Before and aftercare fees | 21,278 |
| E-rate revenues | 63,214 |
| Other income | 32,541 |
| Total unrestricted revenues and support | 11,653,475 |

Expenses:

| | |
|---|-------------|
| Program services: | |
| Instructional - regular education programs | 4,789,762 |
| Pupil support services | 647,520 |
| Instructional staff support services | 241,038 |
| School administration | 1,604,765 |
| Operation and maintenance of plant services | 2,449,901 |
| Student transportation | 349,432 |
| Food services | 517,375 |
| Non-instructional expense | 44,012 |
| Management and general: | |
| Business services | 891,659 |
| Central services | 151,442 |
| Debt service | 2,094,591 |
| Total expenses | 13,781,497 |
| Change in net assets | (2,128,022) |

**NET DEFICIT AT BEGINNING
OF THE YEAR**

(3,037,126)

NET DEFICIT AT END OF THE YEAR

\$ (5,165,148)

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

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

| | |
|---|---------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES:</u> | |
| Change in net assets | \$ (2,128,022) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Depreciation | 1,232,503 |
| Decrease (increase) in: | |
| Federal program receivables | 32,633 |
| Other receivables | (1,395) |
| Due to CSUSA | 1,289,513 |
| Due from CSUSA affiliate | (358,926) |
| Prepaid expenses and other | 96,518 |
| Other assets | 6,354 |
| Increase (decrease) in: | |
| Accounts payable | (83,760) |
| Accrued payroll and related expenses | 70,316 |
| Accrued other expenses | (69,214) |
| Funds held in custody | 36,722 |
| Net cash used in operating activities | <u>123,242</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES:</u> | |
| Purchase of fixed assets | <u>(94,967)</u> |
| Net cash used in investing activities | <u>(94,967)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES:</u> | |
| Payments on capital leases | (438,573) |
| Accrued interest on capital leases | <u>266,415</u> |
| Net cash provided by financing activities | <u>(172,158)</u> |
| Net decrease in cash | (143,883) |
| Beginning cash balance | <u>805,131</u> |
| Ending cash balance | <u>\$ 661,248</u> |
| <u>Supplemental disclosure of cash flow information</u> | |
| Interest paid | <u>\$ 2,094,589</u> |
| <u>Supplemental schedule of noncash financing activities:</u> | |
| Capital lease obligation incurred for use of building and equipment | <u>\$ -</u> |
| <u>Reconciliation of Cash Balances</u> | |
| Cash | \$ 616,319 |
| Cash - restricted | <u>44,929</u> |
| Ending cash balance | <u>\$ 661,248</u> |

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

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

South Louisiana Charter Foundation, Inc. (the Foundation) is a Louisiana not-for-profit entity organized exclusively for educational purposes for providing high quality educational options for the students and families of Louisiana. For the 2017-2018 school year, the Foundation operated Iberville Charter Academy (Iberville), under A Type 2 charter agreement pursuant to Louisiana Revised Statutes, Title 17, Chapter 42 with the Louisiana Board of Secondary Education (BESE), and South Baton Rouge Charter Academy (South Baton Rouge), under a Type 1 charter agreement pursuant to Louisiana Revised Statutes, Title 17, Chapter 42 with the East Baton Rouge Parish School Board. The Iberville and South Baton Rouge charter agreements will terminate on June 30, 2019, unless extended for a maximum initial term of five years, contingent upon the results of a review conducted after the completion of the third year of operation. Collectively, the schools had enrollment of approximately 830 students for the 2017-2018 school year.

Financial Statement Presentation

The Foundation follows the guidance of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Foundation is required to present a statement of cash flows.

The Foundation also follows the guidance of the *Not-for-Profit Entities* Topic of the FASB ASC, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the donor-imposed time or purpose restrictions. Restricted contributions, for which the restriction is met in the same year, are classified as unrestricted.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Functional Expenses

The costs of providing various program and administrative services have been reported on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the various program and administrative services based on estimates made by management.

Use of Estimates

Management used estimates and assumptions in preparing the financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Funds Held in Custody

The Foundation considers all student activity funds and unexpended income from these funds to be funds held in custody. All funds held in custody are recorded in the statement of financial position at cost which represents their fair values.

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants Receivable

Grants receivable represents amounts owed to the Foundation for costs incurred under federal and state grant contracts which are reimbursable to the Foundation. Grants receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Foundation provides for losses on grants receivables using the allowance method. The allowance is based on experience with collections from granting agencies. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Foundation's policy to charge off uncollectible contracts receivable when management determines that the receivable will not be collected. Management has concluded that all receivables are collectible, and as such, no allowance for doubtful accounts has been established as of June 30, 2018.

Public Support and Revenue Recognition

The Foundation receives grants from the private and public sectors. The public sector grants are for specific purposes and are passed through the Louisiana Department of Education. Additionally, the Foundation receives Minimum Foundation Program (MFP) funding from the Louisiana Department of Education through the Louisiana Board of Elementary and Secondary Education according to the per student funding formula set forth by the Department of Education and an apportionment of local taxes. Substantially all state grants and support are unrestricted as to use. A substantial portion of federal grants are expenditure driven and as such is classified as unrestricted in the Statement of Activities and Changes in Net Assets. The Foundation also receives federal support for food service that is based on the number of meals served to students. As such, revenue is recognized as meals are served. Before and after care fees are recognized when earned.

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. All contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions. 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. Contributions whose donor restrictions are met in the same reporting period are reported as unrestricted support.

Cash

For purposes of the statement of cash flows, cash includes all cash accounts held at financial institutions and cash on hand. At June 30, 2018, the balances in the cash accounts exceeded the amount insured by the Federal Deposit Insurance Corporation by approximately \$416,000. Management, however, believes the credit risk associated with these deposits is minimal. Restricted cash represents amounts held by the Foundation for the Agency fund.

Advertising

The Foundation expenses advertising costs as they are incurred. Such expenses totaled \$79,332 during the fiscal year ended June 30, 2018.

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Foundation has adopted the practice of capitalizing all expenditures for depreciable assets for per unit cost which exceeds \$750 or an asset purchase over \$5,000. Property and equipment is recorded at cost or at fair value for donated assets. Depreciation of these assets is provided on the straight-line basis over their estimated useful lives ranging from 3 to 20 years. Maintenance and repairs are charged to expense when incurred. Leasehold improvements are amortized over 20 years.

Tax Exempt Status

The Foundation is a nonprofit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes and as such no provision has been made for federal and state income taxes. If the Foundation would engage in activities unrelated to the purpose for which it was created, taxable income could result. The Foundation had no material unrelated business income for the fiscal year ended June 30, 2018.

The Foundation recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and other information available at the reporting date and is subject to management's judgment. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. The Foundation has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions.

Accounting Changes

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 June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU is effective for annual periods beginning after December 15, 2018.

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes (continued)

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 Foundation is currently assessing the impact of these pronouncements on the financial statements.

2. GRANTS RECEIVABLE

Receivables due from other governmental agencies at June 30, 2018, consists of \$77,301, representing amounts due from the Louisiana Department of Education for federal pass through grants under the Title I program, Title II program, Title IV program and IDEA program. An additional \$70,619 was due from the U.S. Department of Agriculture through the Louisiana Department of Education under the National School Lunch Program. The remaining \$525,494 is due from the Louisiana Department of Education for Minimum Foundation Program revenues earned but not paid.

3. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at June 30, 2018:

| | |
|--------------------------------------|----------------------|
| Buildings and leasehold improvements | \$ 23,189,985 |
| Furniture & fixtures | 928,343 |
| Equipment and software | <u>1,131,147</u> |
| Total cost | \$ 25,249,475 |
| Less: Accumulated depreciation | <u>(5,396,123)</u> |
| Total Property and equipment | <u>\$ 19,853,352</u> |

Depreciation expense for the year ending June 30, 2018 was \$1,232,503.

4. FUNDS HELD IN CUSTODY

Collections from student activities are funds under the supervision of the Foundation; however, these funds belong to the schools or their student bodies and are not available for use in operations.

5. CONCENTRATION OF SUPPORT

The Foundation received 90.24% of its support from MFP funding and 8.72% of its support from federal grants passed through the Louisiana Department of Education during the year ending June 30, 2018. The loss or significant reduction of state and federal funding could have a material adverse effect on the Foundation's operations.

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

6. COMMITMENTS

The Foundation has a formal agreement with Charter Schools USA, Inc. (CSUSA) to manage, staff, and operate the School. The agreement states that CSUSA shall be entitled to a management fee and cost reimbursements for its services. The management fee is 15% of revenues which shall be set forth within the approved annual budget or a lesser percentage if, as otherwise agreed to, by CSUSA. During the fiscal year, CSUSA retroactively reduced the management fee based on the cash flow needs of the schools under the terms of the management agreement which is to offset future management fee charges. The management agreement also allows for CSUSA to make operating advances to the Foundation in the event there are insufficient funds in the operating account to pay operating expenses.

At June 30, 2018, the Foundation owed CSUSA \$2,978,631 related to operation and trade payables. These amounts have been netted against amounts to the Foundation by CSUSA of \$911,836 for miscellaneous fees provided under the terms of the management agreement. The net amount of \$2,066,795 is reflected as amounts due to CSUSA in the statement of financial position.

Addendums to the management agreements between the Foundation and CSUSA were signed on May 31, 2016. The addendums allow CSUSA to recoup previously reduced management fees in future years, provided the school budgets can reasonably accommodate recoupment of all or a portion of the accumulated difference between the initial budgeted fees and the actual fees paid. Iberville's management fees were reduced by \$711,720 for the year ended June 30, 2018. South Baton Rouge did not have a reduction in management fees for the year ended June 30, 2018.

For the year ended June 30, 2018, the amount of compensation paid to CSUSA totaled \$1,141,830 for operating the school as well as the aftercare program. These amounts are included in business services and school administration on the statement of activities and changes in net assets.

7. CAPITAL LEASE

The Foundation has entered into a 20 year capital lease agreement for property and athletic fields for each of the charter schools. The leases are held by an affiliate of CSUSA. Effective July 1, 2017, there was a lease incentive provided to the schools which resulted in a reassessment of the lease agreement. The result of the reassessment is an updated interest rate for the lease at the date of reassessment on the basis of the remaining lease term and remaining payments.

For Iberville Charter, interest on the original lease was 9.779% and changed to 8.284%. Principal payments which commenced on January 1, 2018 per the original lease, changed to commence on November 1, 2021. The reassessment of the lease agreement resulted in a decrease in payments of \$906,225, which was recorded as a due from CSUSA Affiliate as of June 30, 2018. The full amount due was paid to the Foundation on October 30, 2018.

South Baton Rouge Charter Academy Interest on the original lease was 9.845% and changed to 8.687%. Principal payments which commenced on January 1, 2018 per the original lease, changed to commence on April 1, 2021. The reassessment of the lease agreement resulted in a decrease in payments of \$506,504, which was recorded as a due from CSUSA Affiliate as of June 30, 2018. The full amount due was paid to the Foundation on October 30, 2018.

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

7. **CAPITAL LEASE** (continued)

Payments are due in monthly installments and are considered late five days after the due date. A five percent late fee is assessed on any payment received after its scheduled due date. No security deposit was required upon execution of these leases. Accrued interest payable related to these capital leases in the amount of \$1,983,852 was outstanding at June 30, 2018.

The Foundation has also entered into capital equipment lease agreements for each of the schools which expire on dates ranging from May 31, 2018 to June 30, 2020. The equipment was originally purchased by the schools and then acquired by an affiliate of CSUSA in a sale and leaseback transaction.

The future minimum lease payments under these capital lease obligations as of June, 30, 2018, are as follows:

| <u>Year ending</u> <u>June 30,</u> | <u>Amount</u> |
|--|-----------------------|
| 2021 | \$ 2,871,148 |
| 2022 | 2,831,352 |
| 2023 | 2,695,272 |
| 2024 | 2,735,700 |
| 2025 | 2,776,740 |
| Thereafter | <u>33,435,276</u> |
| Total minimum lease payments | 47,345,488 |
| Less: amounts representing interest | <u>(23,875,505)</u> |
| Present value of minimum lease payments | \$ 23,469,983 |
| Less: current portion | <u>(236,448)</u> |
| Capital lease payable – long term | <u>\$ 23,233,535</u> |

8. **FEDERAL GRANTS**

The Foundation received federal assistance from the following programs which were all passed through the Louisiana Department of Education.

| | <u>2018</u> |
|-------------------------------------|---------------------|
| US Department of Education | |
| Title I | \$ 373,881 |
| Title II | 40,508 |
| IDEA | 153,124 |
| Student Support | 8,841 |
| | <u>576,354</u> |
| US Department of Agriculture | |
| National School Lunch Program | 444,256 |
| Total | <u>\$ 1,020,610</u> |

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

9. CONTINGENT LIABILITIES

The Foundation may from time-to-time be subject to claims and liabilities in the normal course of business. A general liability policy has been purchased to cover the costs of such claims. No such claims are outstanding as of June 30, 2018.

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

In September 2014, the Iberville Parish School Board and the Louisiana Association of Educators filed separate lawsuits against Louisiana Board of Elementary and Secondary Education (BESE) and the Louisiana Department of Education (LDOE) challenging the constitutionality of the state's ability to use the MFP to fund Type 1B and all Type 2 charter schools. The District Court ruled in favor of BESE and LDOE. An appeal is pending. While these lawsuits may threaten the current funding mechanism for Type 2 charter schools, including Iberville and South Baton Rouge, the Foundation is uncertain of the ultimate outcome of the lawsuits and no amounts are recorded in the financial statements relating to the lawsuits.

10. DISSOLUTION OF EAST BATON ROUGE CHARTER ACADEMY AT MID-CITY

The charter school agreement between the East Baton Rouge Charter Academy at Mid-City and The State of Louisiana was revoked on December 16, 2016, effective at the end of the 2016/2017 school year. Based on the terms of the agreement, all remaining assets will revert back to the State per LDOE's Standard Operating Procedure. The net property and equipment of \$8,127,361 for Mid-City was returned to the State as of June 30, 2017. The capital lease obligation for the building and furniture and equipment for Mid-City was \$9,324,483 as of June 30, 2017. The net amount of the property and equipment was offset by the capital lease obligation and the amounts due to the State and resulted in a gain of \$1,197,122 on the disposition of assets as of June 30, 2017.

The Foundation, entered into an agreement with CSUSA to provide post-closing services. The fee for these services was \$102,000 and was recorded as amounts due to CSUSA in the financial statements as of June 30, 2017. Approximately \$98,000 of funds were approved by the State to be transferred to South Baton Rouge and Iberville for federal grant reimbursements. The remaining net assets of approximately \$166,000 are accrued as of June 30, 2018. Subsequent to the year ended 2018, Mid-City closed out any remaining operations and returned the remaining cash balances in the amount of \$166,460 to the State.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 21, 2018, and determined that there are not items that require disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

| | Mid-City | South Baton Rouge | Iberville | Eliminating Entries | Combined |
|---|--------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|
| <u>ASSETS</u> | | | | | |
| <u>CURRENT ASSETS:</u> | | | | | |
| Cash | \$ 264,805 | \$ 166,784 | \$ 184,730 | \$ - | \$ 616,319 |
| Cash - restricted | - | 36,744 | 8,185 | - | 44,929 |
| Grants receivable: | | | | | |
| Federal programs | - | 587,446 | 85,968 | - | 673,414 |
| Other receivables- E-rate | - | 28,877 | 31,996 | - | 60,873 |
| Due from CSUSA affiliate | - | 888,402 | 906,255 | - | 1,794,657 |
| Due from other schools | - | 65,961 | 32,030 | (97,991) | - |
| Prepaid expenses and other | - | 9,926 | 6,629 | - | 16,555 |
| Total current assets | <u>264,805</u> | <u>1,784,140</u> | <u>1,255,793</u> | <u>(97,991)</u> | <u>3,206,747</u> |
| <u>PROPERTY AND EQUIPMENT (NET):</u> | <u>-</u> | <u>11,106,501</u> | <u>8,746,851</u> | <u>-</u> | <u>19,853,352</u> |
| <u>NON-CURRENT ASSETS:</u> | | | | | |
| Utility deposit | - | 17,553 | 15,000 | - | 32,553 |
| Total non-current assets | <u>-</u> | <u>17,553</u> | <u>15,000</u> | <u>-</u> | <u>32,553</u> |
| Total assets | <u>\$ 264,805</u> | <u>\$ 12,908,194</u> | <u>\$ 10,017,644</u> | <u>\$ (97,991)</u> | <u>\$ 23,092,652</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | | | |
| <u>CURRENT LIABILITIES:</u> | | | | | |
| Accounts payable | \$ - | \$ 25,729 | \$ 28,243 | \$ - | \$ 53,972 |
| Accrued payroll and related expenses | - | 243,408 | 160,979 | - | 404,387 |
| Accrued other expenses- see Note 10 | 166,102 | 5,731 | 21,648 | - | 193,481 |
| Due to CSUSA | - | 1,067,694 | 999,101 | - | 2,066,795 |
| Due to other schools | 97,991 | 3,338 | 9,264 | (97,991) | 12,602 |
| Accrued interest payable - short term portion | - | 289,333 | 225,155 | - | 514,488 |
| Capital lease payable - short term portion | - | 128,792 | 107,656 | - | 236,448 |
| Deferred revenues | - | - | 1,766 | - | 1,766 |
| Funds held in custody | 712 | 62,065 | 8,185 | - | 70,962 |
| Total current liabilities | <u>264,805</u> | <u>1,826,090</u> | <u>1,561,997</u> | <u>(97,991)</u> | <u>3,554,901</u> |
| <u>LONG TERM LIABILITIES:</u> | | | | | |
| Accrued interest payable | - | 719,806 | 749,558 | - | 1,469,364 |
| Capital lease payable | - | 13,537,576 | 9,695,959 | - | 23,233,535 |
| Total long-term liabilities | <u>-</u> | <u>14,257,382</u> | <u>10,445,517</u> | <u>-</u> | <u>24,702,899</u> |
| <u>NET DEFICIT:</u> | | | | | |
| Unrestricted | - | (3,175,278) | (1,989,870) | - | (5,165,148) |
| Temporarily Restricted | - | - | - | - | - |
| Total net deficit | <u>-</u> | <u>(3,175,278)</u> | <u>(1,989,870)</u> | <u>-</u> | <u>(5,165,148)</u> |
| Total liabilities and net deficit | <u>\$ 264,805</u> | <u>\$ 12,908,194</u> | <u>\$ 10,017,644</u> | <u>\$ (97,991)</u> | <u>\$ 23,092,652</u> |

See independent auditors' report.

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

| | <u>Mid-City</u> | <u>South Baton Rouge</u> | <u>Iberville</u> | <u>Eliminating Entries</u> | <u>Combined</u> |
|---|-----------------|------------------------------|-----------------------|--------------------------------|-----------------------|
| Revenue, Grants and Other Support | | | | | |
| Minimum Foundation Program (MFP) | \$ - | \$ 7,088,352 | \$ 3,423,301 | - | \$ 10,511,653 |
| Federal grants | - | 535,134 | 485,476 | - | 1,020,610 |
| State Grants | - | - | 3,813 | - | 3,813 |
| Paid meals | - | 366 | - | - | 366 |
| Before and aftercare fees | - | 13,827 | 7,451 | - | 21,278 |
| E-rate revenues | - | 28,877 | 34,337 | - | 63,214 |
| Other income | - | 3,629 | 28,912 | - | 32,541 |
| Total unrestricted revenues and support | <u>-</u> | <u>7,670,185</u> | <u>3,983,290</u> | <u>-</u> | <u>11,653,475</u> |
| Expenses: | | | | | |
| Program services: | | | | | |
| Instructional - regular education programs | - | 2,991,757 | 1,798,005 | - | 4,789,762 |
| Pupil support services | - | 442,164 | 205,356 | - | 647,520 |
| Instructional staff support services | - | 131,901 | 109,137 | - | 241,038 |
| School administration | - | 969,933 | 634,832 | - | 1,604,765 |
| Operation and maintenance of plant services | - | 1,602,458 | 847,443 | - | 2,449,901 |
| Student transportation | - | 166,381 | 183,051 | - | 349,432 |
| Food services | - | 301,397 | 215,978 | - | 517,375 |
| Non-instructional expense | - | 4,714 | 39,298 | - | 44,012 |
| Management and general: | | | | | |
| Business services | - | 893,768 | (2,109) | - | 891,659 |
| Central services | - | 140,840 | 10,602 | - | 151,442 |
| Debt service | - | 1,241,885 | 852,706 | - | 2,094,591 |
| Total expenses | <u>-</u> | <u>8,887,198</u> | <u>4,894,299</u> | <u>-</u> | <u>13,781,497</u> |
| Change in net assets | - | (1,217,013) | (911,009) | - | (2,128,022) |
| NET DEFICIT AT BEGINNING OF THE YEAR | <u>-</u> | <u>(1,958,265)</u> | <u>(1,078,861)</u> | <u>-</u> | <u>(3,037,126)</u> |
| NET DEFICIT AT END OF THE YEAR | <u>\$ -</u> | <u>\$ (3,175,278)</u> | <u>\$ (1,989,870)</u> | <u>\$ -</u> | <u>\$ (5,165,148)</u> |

See independent auditors' report.

SOUTH LOUISIANA CHARTER FOUNDATION, INC.
BATON ROUGE, LOUISIANA

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS
TO BOARD PRESIDENT
FOR THE YEAR ENDED JUNE 30, 2018

Board President, John Pierre

| <u>Purpose</u> | <u>Amount</u> |
|----------------------|---------------|
| Travel reimbursement | \$ - |
| | <u>\$ -</u> |

See independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors for
South Louisiana Charter Foundation, Inc.
Baton Rouge, 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 South Louisiana Charter Foundation, Inc. (a nonprofit organization), which are comprised of the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the 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 financial statements, we considered the Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-01 and 2018-02, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provision of laws, regulation, 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*.

South Louisiana Charter Foundation's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
December 21, 2018

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

South Louisiana Charter Foundation, Inc.
Baton Rouge, Louisiana

Report on Compliance for Each Major Federal Program

We have audited the South Louisiana Charter Foundation's (the Foundation) compliance with the types of compliance requirements described in the *Uniform Guidance Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended June 30, 2018. The Foundation'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 the Foundation'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; 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 Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation'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 the Foundation's compliance.

Opinion on its Major Federal Program

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

Report on Internal Control over Compliance

Management of the Foundation 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 Foundation'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 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 Foundation'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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
December 21, 2018

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of South Louisiana Charter Foundation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – DE MINIMUS COST RATE

During the year ended June 30, 2018, the South Louisiana Charter Foundation did not elect to use the 10% de minimus cost rate as covered in §200.414 of the Uniform Guidance.

SOUTH LOUISIANA CHARTER FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

| <u>Federal Grantor/ Pass-Through Grantor/ Program Name</u> | <u>Grantor Project Number</u> | <u>CFDA Number</u> | <u>Expenditures 2018</u> |
|--|---------------------------------------|------------------------|------------------------------|
| <u>UNITED STATES DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed through Louisiana Department of Education: | | | |
| National School Lunch Program | LDE - 17/18 | 10.555 ¹ | \$ 356,915 |
| National School Breakfast Program | LDE - 17/18 | 10.553 ¹ | 87,341 |
| Total US Department of Agriculture | | | <u>444,256</u> |
| <u>UNITED STATES DEPARTMENT OF EDUCATION</u> | | | |
| Passed through Louisiana Department of Education: | | | |
| Title I - Grants to Local Educational Agencies | 28-17-T1-ED | 84.010A | 214,496 |
| Passed through East Baton Rouge School System: | | | |
| Title I - Grants to Local Educational Agencies | 28-17-T1-ED | 84.010A | 159,385 |
| Subtotal Title I - Grants to Local Education Agencies | | | <u>373,881</u> |
| Passed through Louisiana Department of Education: | | | |
| Special Education, IDEA | 28-17-B1 | 84.027A ² | 71,199 |
| Title II - Part A, Teacher & Principal Training & Recruiting | 28-17-50 | 84.367A | 40,508 |
| Preschool Development Grants | 28-19-P718 | 84.419 | 81,925 |
| Title IV - Student Support and Academic Enrichment Program | 28-19-71 | 84.424 | 8,841 |
| Total US Department of Education | | | <u>202,473</u> |
| Total Expenditures | | | <u>\$ 1,020,610</u> |

¹ Child nutrition cluster - \$444,256

² Special education cluster - \$71,199

None of the above listed federal awards were passed through to subgrantees.

See accompanying notes to the schedule of expenditures of federal awards.

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2018 – 01) School Activity Funds

Criteria: Internal controls over cash collections for school activity funds have been established by the Foundation. These controls include segregation of duties, the use of ticketed receipt books, timely deposits, and reconciliations of those deposits to a “Daily Cash Receipts Reconciliation” which is maintained daily by each teacher/sponsor and submitted to the School Operations Administrator. This reconciliation is used in the reconciliation process of the daily deposits made by each school.

Condition: In 3 out of a sample of 40 cash deposits selected for testing, each of the Foundation’s schools were unable to locate all deposit information. These total cash receipts sample items totaled \$1,473.

In 4 out of a sample of 40 cash deposits selected for testing, the teacher collection log and receipts did not agree to the Daily Cash Receipts Reconciliation.

In 1 out of a sample of 40 cash deposits selected for testing, the Daily Cash Receipts Reconciliation did not have evidence of approval by the School Operations Administrator.

For 1 out of a sample of 40 cash deposits selected for testing, the amount deposited did not agree to the cash collected per the Daily Cash Receipts Reconciliation.

Cause: Lack of adequate record keeping and employee turnover related to the School Operations Administrator position has resulted in poorly maintained documentation related to school deposits.

Effect: Without the operation of proper internal controls over the cash collections at each school, there is an opportunity for misappropriation of these funds which may go undetected and result in a loss of school funds.

Recommendation: The Foundation should communicate the importance of maintaining adequate records and consider monitoring the status of records to ensure that policies and procedures are being implemented and performed appropriately.

Repeat Finding: Yes.

View of Responsible Official:

School administrators are aware that record retention is an issue and must be corrected. Policies and procedures are being reviewed to determine what needs to be in place to ensure proper record keeping. Leadership will work with school administrators to ensure existing and new policies are enforced so documentation is available when requested. Management will continue to remind the school of the importance of proper recordkeeping.

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

B. FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

2018 – 02) Approval of Pay Rates and Adequate Record Keeping

Criteria: Internal controls over approved pay rates have been established by the Foundation. These controls include review of the Personnel Action Forms (PAF) by the school's principal before submission to Human Resources.

Condition: In 12 out of a sample of 40 employees selected for testing, the compensation letter was signed by the employee, but not signed by the Principal in accordance with their internal policy or was not signed in a timely manner.

For 1 out of a sample of 40 employees selected for testing, documentation of pay and position was unable to be provided.

For 10 out of a sample of 40 employees selected for testing, a difference was noted in the recalculation of pay.

For 3 out of a sample of 40 employees selected for testing, the employee's position did not agree with the fund and account charged.

Cause: Lack of adequate record keeping has resulted in poorly maintained documentation related to payroll and approval of pay rates.

Effect: Maintaining pay rate authorization and associated payroll documentation in the employee personnel files is an important control against unauthorized changes in pay rates.

Recommendation: The Foundation should communicate the importance of maintaining adequate records and consider monitoring the status of records to ensure that policies and procedures are being performed appropriately.

Repeat Finding: Yes.

View of Responsible Official:

Proper employee documentation is collected at the date of hire, but proper policies for record retention were not followed resulting in the inability to produce the documents on request. School administrators are aware that record retention is an issue and must be corrected. Policies and procedures are being reviewed to determine what needs to be in place to ensure proper record keeping. Leadership will work with school administrators to ensure existing and new policies are enforced so documentation is available when requested. Management will continue to remind the school of the importance of proper recordkeeping

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2017 – 01) Procedures over School Close Out

Criteria: The charter school agreement between the East Baton Rouge Charter Academy at Mid-City (Mid-City) and The State of Louisiana was not renewed on December 16, 2016, effective at the end of the 2016/2017 school year. Based on the terms of the agreement, all remaining assets will revert back to the Louisiana Department of Education (LDOE) per LDOE’s Standard Operating Procedure. The LDOE requires that the Foundation establish and document a process for close-out. This close-out process should include a process for ensuring that all vendors and outstanding debts are paid, ensuring that all outstanding litigation is substantially completed and a methodology for determining the portion of the net assets generated through donations and a process for determining the portion of the net assets that was generated by MFP state and local allocations. Accounting records must be maintained to substantiate the makeup of the cash balance to ensure that the correct amount is remitted to the LDOE.

Condition: During our audit, documentation for certain transactions of Mid-City could not be provided for the following items:

- Documentation for 5 out of 19 cash receipts was not able to be located
- Payroll testing:
 - 1 out 5 employees tested lacked documentation of the review of compensation paid and pay rate during the year.
 - 9 out of 25 employees tested were missing documentation of approval of attendance/leave requests.
 - Missing documentation for 2 out 2 employees tested for approval of termination payments.
- Missing documentation for 1 out of 5 employees tested for evidence of Ethics Training

Cause: The Foundation has not previously completed a school close out in accordance with the State’s LDOE Standard Operating Procedures and lacked established procedures for this process. The records for Mid-City were not maintained through a formal record keeping policy subsequent to the closure of the school and all records were returned to the management company.

Effect: The lack of such controls and procedures over the close out of a school may result in incorrect recording of transactions in the financial statements. Supporting documentation was difficult to locate and unable to be provided due to the records being sent to the management company.

Recommendation: The Foundation should establish written policies and procedures in accordance with the State’s LDOE Standard Operating Procedures to ensure that the financial statements properly reflect the activity of the closed school, as well as maintain the necessary supporting accounting records.

Repeat Finding: No.

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2017 – 01) Procedures over School Close Out (continued)

View of Responsible Official:

One of the schools in the foundation, East Baton Rouge Charter Academy at Mid-City, was not granted a charter renewal and as a result their charter expired on June 30, 2017. This was the first time the foundation had a school closure. The management company formed a committee to handle the closure and ensure the school was in compliance with the LDOE Standard Operating Procedures. Part of the process was to mail all financial records to the Support Center so they would be available for audit and close-out procedures, however not all records were properly retained. New electronic record retention policies and procedures are being implemented for financial and personnel records. Electronic record retention will safe guard against losing records in the event of a school closure. The foundation and management company will review how the close out was handled and make notes for improvement in the event they encounter a similar situation in the future.

Current Status: Resolved.

2017 – 02) School Activity Funds

Criteria: Internal controls over cash collections for school activity funds have been established by the Foundation. These controls include segregation of duties, the use of ticketed receipt books, timely deposits, and reconciliations of those deposits to a “Daily Cash Receipts Reconciliation” which is maintained daily by each teacher/sponsor and submitted to the School Operations Administrator. This reconciliation is used in the reconciliation process of the daily deposits made by each school.

Condition: In 10 out of a sample of 40 cash deposits selected for testing each of the Foundation’s schools were unable to locate the deposit information including the teacher collection log for which these cash receipts totaled \$34,457. For 2 out of a sample of 40 cash deposits selected for testing, the amount deposited did not tie to the cash collected per the Daily Cash Receipts Reconciliation.

Cause: Lack of adequate record keeping and employee turnover related to the School Operations Administrator position has resulted in poorly maintained documentation related to school deposits.

Effect: Without proper internal controls over the cash collections at each school, there is an opportunity for misappropriation of these funds which may go undetected and result in a loss of school funds.

Recommendation: The Foundation should communicate the importance of maintaining adequate records and consider monitoring the status of records to ensure that policies and procedures are being implemented and performed appropriately.

Repeat Finding: Yes.

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2017 – 02) School Activity Funds (continued)

View of Responsible Official:

One of the schools within the foundation closed subsequent to the 2016-2017 school year, which affected their ability to provide records. Processes are being put in place to ensure that records are properly retained in the event of a school closure. The lead trainer of the SOA position continues to visit the schools to reinforce CSUSA cash receipts policies and stress the importance of record retention. The Principal and Regional Director are also aware that record retention has been a recurring issue and must be corrected. We are working on implementing new procedures that will help with record retention. Some of these process include requiring School Operations Administrator to provided electronic copies of all deposits to the staff accountant assigned to the school rather than only conducting intermittent checks that the proper backup is being retained.

Current Status: Not resolved. See finding 2018-01.

2017 – 03) Approval of Pay Rates

Criteria: Internal controls over approved pay rates have been established by the Foundation. These controls include review of the Personnel Action Forms (PAF) by the school’s principal before submission to Human Resources.

Condition: In 5 out of a sample of 40 employees selected for testing, the compensation letter was signed by the employee, but not signed by the Principal in accordance with their internal policy.

Cause: Lack of adequate record keeping has resulted in poorly maintained documentation related to approval of pay rates.

Effect: Maintaining pay rate authorization in the employee personnel files is an important control against unauthorized changes in pay rates.

Recommendation: The Foundation should communicate the importance of maintaining adequate records and consider monitoring the status of records to ensure that policies and procedures are being performed appropriately.

Repeat Finding: No.

View of Responsible Official:

We have begun implementing process that include electronic filing of records rather than only requiring school operation administrators to retain paper copies at the school level. The data entry team keeps copies of all personnel action forms for new hires and salary changes in our human resource information system, Ultimate software. By maintaining these records electronically, we will be able to keep more thorough records. Housing the data in the employees’ records will allow for faster completion of documentation requests for audit purposes as well.

Current Status: Not resolved. See finding 2018-02.

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2017 – 04) Reporting – Internal Controls

Child Nutrition Cluster:

CFDA #10.555 National School Lunch Program

CFDA #10.553 National School Breakfast Program

Questioned Costs: None.

Criteria: The Uniform Guidance requires that a system of internal controls must be in place to ensure the Foundation’s compliance with applicable direct and material areas of compliance, including reporting. In accordance with grant terms, funds passed through from the Louisiana Department of Education (LDOE) are received on a reimbursement-basis based on eligible meals served.

In accordance with compliance requirements described at 2 CFR section 200.305, the Foundation is required to submit reimbursement requests to the LDOE on a periodic basis, which is typically monthly.

Universe/
Population Size: Not applicable.

Sample Size: Not applicable.

Condition(s): During our audit procedures, we noted that a detailed review and approval of requests for reimbursement prior to its submission to the LDOE was not documented. The accountant prepares reimbursement requests from system data that supports meal counts and the number of meals served by category and based on inquiry of management a review of these requests for reimbursement is performed; however, no documented evidence of this review of the prepared request is maintained.

Cause: Management has underlying controls that they believe to be sufficient to ensure accuracy of reimbursement requests; however, these controls are not documented by evidence of approval.

Effect: The Foundation lacks documented internal controls over the preparation and submission of the reimbursement claims for meals served. Without appropriate documented internal controls over reporting, reviews of the reimbursement claims may not be performed and errors in amounts requested may go undetected that would cause them to be non-compliant with Federal award terms.

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2017 – 04) Reporting – Internal Controls (continued)

Child Nutrition Cluster:

CFDA #10.555 National School Lunch Program

CFDA #10.553 National School Breakfast Program

Recommendation: The Foundation should develop and implement policies and procedures requiring documented evidence of review over all reporting requirements, specifically for meals claimed for reimbursement, to ensure that all reports required by the grant terms are reviewed and approved prior to submission.

Repeat Finding: No.

View of Responsible Official:

The current process for requesting reimbursements includes the Operations Coordinator who supports the school checking to ensure the Operations Administrative Assistant properly entered the counts into the disbursement worksheet correctly and that they match the counts submitted by the school. Once confirmed to be correct, the Operations Coordinator then enters the counts into the state system, but does not submit the counts until receiving approval from the Senior Operations Manager. The current process only requires a verbal approval for submission, but the process will be revised to include a written approval in order to allow for documentation of the approval.

Current Status: Resolved.

2017 – 05) Submission to the Federal Audit Clearinghouse

Questioned Costs: None.

Criteria: The Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 2 CFR 200.512 requires auditees to submit a completed Form SF-SAC, along with one complete reporting package, to the Federal Audit Clearinghouse.

Universe/

Population Size: Not applicable.

Sample Size: Not applicable.

SOUTH LOUISIANA CHARTER FOUNDATION, INC
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2017 – 05) Submission to the Federal Audit Clearinghouse (continued)

Condition(s): The audit shall be completed and the data collection form and reporting package shall be electronically transmitted within the earlier of 30 days after receipt of the auditors' report, or nine months after the end of the audit period.

Cause: The financial statements for the year ended June 30, 2016 were issued on December 23, 2016. The Submission to the Federal Audit Clearinghouse was completed on September 21, 2017, which exceeds the timeframe for timely submission. The Foundation lacks internal controls over tracking the timely submission of the reporting package within the required timeframe for submission as required by Uniform Guidance.

Effect: Noncompliance with the reporting deadline could result in a reduction in funding or denied future applications for grant awards.

Recommendation: The Foundation should develop and implement policies and procedures over all reporting requirements, specifically submission to the federal audit clearinghouse, to ensure that all reports required by the grant terms are submitted timely in accordance with Uniform Guidance.

Repeat Finding: No.

View of Responsible Official:

The current process for submitting the audit to the Federal Audit Clearinghouse is the audit firm initiates the submission as a courtesy and then notifies the management company to finish the submission. We will implement a process to follow up with audit firm if we are not notified of the submission within thirty days of the audit issuance date.

Current Status: Resolved.

**Independent Accountants' Report
On Applying Agreed-Upon Procedures**

To the Members of the
South Louisiana Charter Foundation,
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the South Louisiana Charter Foundation, the Louisiana Department of Education, and the Louisiana Legislative Auditor (the specified parties), on the performance and statistical data accompanying the annual financial statements of the South Louisiana Charter Foundation for the fiscal year ended June 30, 2018; and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE) Bulletin, in compliance with Louisiana Revised Statute 24:514 I. Management of the South Louisiana Charter Foundation is responsible for its performance and statistical data. The sufficiency of these procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

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

1. We selected a sample of 25 transactions, reviewed supporting documentation, and observed that the sampled expenditures/revenues are classified correctly and are reported in the proper amounts among the following amounts reported on Schedule 1:
 - Total General Fund Instructional Expenditures
 - Total General Fund Equipment Expenditures
 - Total Local Taxation Revenue
 - Total Local Earnings on Investment in Real Property
 - Total State Revenue in Lieu of Taxes
 - Nonpublic Textbook Revenue
 - Nonpublic Transportation Revenue

No exceptions noted.

Class Size Characteristics (Schedule 2)

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

Of the 10 classes selected, we were unable to obtain class rosters for one class. We also noted the following differences in 5 classes between the roll book counts and the number reported in Schedule 2

| Number of Students Reported | Roll Book Counts | Difference |
|------------------------------------|-------------------------|-------------------|
| 25 | Not provided | Not provided |
| 25 | 16 | 9.00 |
| 17 | 18 | (1.00) |
| 19 | 20 | (1.00) |
| 20 | 21 | (1.00) |
| 10 | 11 | (1.00) |

Education Level of Public School Staff (NO SCHEDULE)

- We obtained October 1st PEP data submitted to the Department of Education (or equivalent listing prepared by management), including full-time teachers, principals, and assistant principals by classification, as well as their level of education. We traced a sample of 25 teachers to the individual's personnel file and determined if the individual's education level was properly classified on the PEP data (or equivalent listing prepared by management).

For 2 out of the 25 individuals selected, the education level was not properly classified on the PEP data.

For 6 out of the 25 individuals selected, support was not provided.

Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers (NO SCHEDULE)

4. We obtained October 1st PEP data submitted to the Department of Education (or equivalent listing prepared by management), of full-time teachers, principals, and assistant principals by classification. We traced the same sample used in procedure 3 to the individual's personnel file and determined if the individual's experience was properly classified on the PEP data (or equivalent listing prepared by management).

For 12 out of the 25 individuals selected, we were unable to obtain support for years of experience. For 2 of the 25 individuals selected, the experience was not properly classified on the PEP data.

Public School Staff Data: Average Salaries (NO SCHEDULE)

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

For 2 out of the 25 individuals selected, salary information was not provided and therefore we were unable to determine proper inclusion of individual's salary on the PEP data.

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

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
December 21, 2018

SOUTH LOUISIANA CHARTER FOUNDATION
BATON ROUGE, LOUISIANA

Schedules Required by State Law (R.S. 24:514 - Performance Measurement Data)
As of and for the Year Ended June 30, 2018

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

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

Schedule 2 (Formerly Schedule 6) Class Size Characteristics

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

SOUTH LOUISIANA CHARTER FOUNDATION
Baton Rouge, Louisiana

General Fund Instructional and Support Expenditures
and Certain Local Revenue Sources
For the Year Ended June 30, 2018

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures:

Teacher and Student Interaction Activities:

| | | |
|--|---------------|-----------|
| Classroom Teacher Salaries | \$ 1,184,915 | |
| Other Instructional Staff Activities | 165,472 | |
| Instructional Staff Employee Benefits | 198,270 | |
| Purchased Professional and Technical Services | 119,520 | |
| Instructional Materials and Supplies | 50,936 | |
| Instructional Equipment | <u>32,337</u> | |
| Total Teacher and Student Interaction Activities | | 1,751,450 |

| | | |
|--------------------------------|--|---------|
| Other Instructional Activities | | 225,294 |
|--------------------------------|--|---------|

| | | |
|--|----------|--------|
| Pupil Support Activities | 54,425 | |
| Less: Equipment for Pupil Support Activities | <u>-</u> | |
| Net Pupil Support Activities | | 54,425 |

| | | |
|--|----------|---------|
| Instructional Staff Services | 242,841 | |
| Less: Equipment for Instructional Staff Services | <u>-</u> | |
| Net Instructional Staff Services | | 242,841 |

| | | |
|---|----------|---------|
| School Administration | 379,869 | |
| Less: Equipment for School Administration | <u>-</u> | |
| Net School Administration | | 379,869 |

| | | |
|---|--|------------------|
| Total General Fund Instructional Expenditures (Total of Column B) | | <u>2,653,879</u> |
|---|--|------------------|

| | | |
|---|------------------|--|
| Total General Fund Equipment Expenditures | <u>\$ 32,337</u> | |
|---|------------------|--|

Certain Local Revenue Sources

Local Taxation Revenue:

| | | |
|---|--|----------|
| Constitutional Ad Valorem Taxes | | |
| Renewable Ad Valorem Tax | | |
| Debt Service Ad Valorem Tax | | |
| Penalty and Interest on Ad Valorem Tax | | |
| Up to 1% of Collections by the Sheriff on Taxes Other than School Taxes | | |
| Sales and Use Taxes | | |
| Sales and Use Tax Penalty and Interest | | |
| Total Local Taxation Revenue | | <u>-</u> |

Local Earnings on Investment in Real Property:

| | | |
|---|--|----------|
| Earnings from 16th Section Property | | - |
| Earnings from Other Real Property | | - |
| Total Local Earnings on Investment in Real Property | | <u>-</u> |

State Revenue in Lieu of Taxes:

| | | |
|--------------------------------------|--|----------|
| Revenue Sharing - Constitutional Tax | | |
| Revenue Sharing - Other Taxes | | |
| Revenue Sharing - Excess Portion | | |
| Other Revenue in Lieu of Taxes | | - |
| Total State Revenue in Lieu of Taxes | | <u>-</u> |

| | | |
|----------------------------------|-------------|---|
| Nonpublic Textbook Revenue | | - |
| Nonpublic Transportation Revenue | <u>\$ -</u> | |

See Independent Accountants' Report

Note: Schedule does not include South Baton Rouge Charter Academy, which is reported with the East Baton Rouge Parish School Board

SOUTH LOUISIANA CHARTER FOUNDATION
Baton Rouge, Louisiana
Class Size Characteristics
As of October 1, 2017

| School Type | Class Size Range | | | | | | | |
|----------------------------------|------------------|--------|---------|--------|---------|--------|---------|--------|
| | 1 - 20 | | 21 - 26 | | 27 - 33 | | 34+ | |
| | Percent | Number | Percent | Number | Percent | Number | Percent | Number |
| Elementary | 44.00% | 60 | 18.00% | 5 | 0.00% | - | 0.00% | - |
| Elementary Activity Classes | 33.00% | 45 | 18.00% | 5 | 0.00% | - | 0.00% | - |
| Middle/Jr. High | 13.00% | 18 | 25.00% | 7 | 0.00% | - | 0.00% | - |
| Middle/Jr. High Activity Classes | 7.00% | 10 | 39.00% | 11 | 0.00% | - | 0.00% | - |
| High | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - |
| High Activity Classes | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - |
| Combination | 1.00% | 2 | 0.00% | - | 0.00% | - | 0.00% | - |
| Combination Activity Classes | 0.00% | - | 0.00% | - | 0.00% | - | 0.00% | - |

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

See Independent Accountants' Report

Note: Schedule does not include South Baton Rouge Charter Academy, which is reported with the East Baton Rouge Parish School Board.



**South Louisiana Charter
FOUNDATION, INC.**

December 19, 2018

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera,

South Louisiana Charter Foundation respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of independent public accounting firm: Postlethwaite and Netterville, APAC
8550 United Plaza Blvd., Suite 1001
Baton Rouge, Louisiana 70809

Audit period: July 1, 2017 – June 30, 2018

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

2018-001 School Activity Funds

Recommendation: The Foundation should communicate the importance of maintaining adequate records and consider monitoring the status of records to ensure that policies and procedures are being implemented and performed appropriately.

Management's Response: School administrators are aware that record retention is an issue and must be corrected. Policies and procedures are being reviewed to determine what needs to be in place to ensure proper record keeping. Leadership will work with school administrators to ensure existing and new policies are enforced so documentation is available when requested. Management will continue to remind the school of the importance of proper recordkeeping.

2018-002 Approval of Pay Rates & Adequate Record Keeping

Recommendation: The Foundation should communicate the importance of maintaining adequate records and consider monitoring the status of records to ensure that policies and procedures are being implemented and performed appropriately.

Management's Response: Proper employee documentation is collected at the date of hire, but proper policies for record retention were not followed resulting in the inability to produce the documents on

request. School administrators are aware that record retention is an issue and must be corrected. Policies and procedures are being reviewed to determine what needs to be in place to ensure proper record keeping. Leadership will work with school administrators to ensure existing and new policies are enforced so documentation is available when requested. Management will continue to remind the school of the importance of proper recordkeeping.

If the Legislative Auditor has questions regarding this plan, please feel free to call me at (954) 202-3500 ext. 1444 or send an email to llennon@charterschoolsusa.com.

Sincerely,

Lindsey Lennon

Lindsey Lennon, CPA,
Controller – Schools, Charter Schools USA



**South Louisiana Charter
FOUNDATION, INC.**

Responses to differences notated in BESE AUPs

Schedule 2 – Of the 10 classes selected, we were unable to obtain class rosters for one class. We also noted the following differences in 5 classes between the roll book counts and the number reported in Schedule 2.

Response: The foundation and management will reinforce the importance of retaining all documents needed to complete these schedules correctly. Current policies will be reviewed and changes will be made to ensure schedules are properly completed in the future.

**For 2 out of the 25 individuals selected, the education level was not properly classified on PEP data.
For 6 out of the 25 individuals selected, support was not provided.
For 2 out of the 25 individuals selected, salary information was not provided and therefore we were unable to determine proper inclusion of individual's salary on the PEP data.**

Response: The foundation and management will reinforce the importance of document retention and properly inputting PEP data. We will also review current policies and implement changes where necessary to ensure documentation is available and information is properly classified.

Signature: *Andree Lennon*

Title: Controller

SOUTH LOUISIANA CHARTER FOUNDATION

REPORT ON STATEWIDE
AGREED-UPON PROCEDURES ON COMPLIANCE AND
CONTROL AREAS

FOR THE YEAR ENDED JUNE 30, 2018



Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors for
South Louisiana Charter Foundation and the
Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the board of South Louisiana Charter Foundation (the Foundation) 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 Board'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 performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read "*no exception noted*". If not, then a description of the exception ensues. Additionally, certain procedures listed below may not have been performed in accordance with guidance provided by the Louisiana Legislative Auditor, the specified user of the report. For those procedures, "procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity" is indicated.

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.

No exceptions noted.

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.

No exceptions noted.

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

No exceptions noted.

- d) **Receipts**, 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).

No exceptions noted.

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

No exceptions noted.

- 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.

No exceptions noted.

- 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)

The Foundation does not use credit cards, debit cards, fuel cards or any type of P-cards.

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

No exceptions noted.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

The Foundation does not have a formal system to monitor possible ethic violations nor a requirement that all employees annually attest through signature verification that they have read the Foundation's ethics policy.

- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Not applicable to the Foundation.

Board or Finance Committee

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
 - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

We noted the board did not meet in July 2017.

- b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. *Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*

We noted the board did not meet in July 2017. No exceptions noted for the other months.

- c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

No formal/written plan was discussed in the board minutes to eliminate the deficit spending for the two schools.

Bank Reconciliations

3. 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:

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- 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);

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- 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

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- 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.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

We selected all two of the Foundation's collection locations and performed the procedures noted below.

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

We selected both collection locations for each deposit site. Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

No exceptions noted.

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

No exceptions noted.

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

No exceptions noted.

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

No exceptions noted.

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

The Entity stated that all employees who have access to cash are not bonded and/or covered under an insurance policy.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:

We selected two deposit dates for each of the 5 bank accounts selected in procedure #3. We obtained supporting documentation for each of the 10 deposits and performed the procedures below.

- a) Observe that receipts are sequentially pre-numbered.

For 1 of 10 collections tested, receipts were not sequentially pre-numbered.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

For 3 of 10 collections tested, receipts could not be traced to the deposit slip.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

No exceptions noted.

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

For 8 of 10 collections tested, deposit was not made within one business day of receipt.

- e) Trace the actual deposit per the bank statement to the general ledger.

No exceptions noted.

Non-payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

We obtained a listing of locations that process disbursements (8 physical locations).

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

The listing of employees involved with non-payroll purchasing and payment functions for each payment processing location selected in procedure #8 was provided. No exceptions were noted as a result of performing this procedure.

Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

No exceptions noted.

- b) At least two employees are involved in processing and approving payments to vendors.

No exceptions noted.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

No exceptions noted.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

No exceptions noted.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

A listing of non-payroll disbursements for each payment processing location selected in procedures #8 was provided related to the reporting period. No exceptions were noted as a result of performing this procedure.

From each of the listings provided, we selected 5 disbursements from each location for a total of 10, and performed the procedures below.

- a) Observe that the disbursement matched the related original invoice/billing statement.

No exceptions noted.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

No exceptions noted.

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

11. 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.

The Foundation does not use credit card/debit cards/fuel cards or P-cards. This section is not applicable.

12. 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.]

Not applicable. See response in step 11.

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

Not applicable. See response in step 11.

13. Using the monthly statements or combined statements selected under #12 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).

Not applicable. See response in step 11.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

A listing of employees/elected officials employed during the fiscal year was provided.

From the listing provided, we randomly selected 5 employees/officials and performed the specified procedures. No exceptions noted.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

We selected 1 pay period during the fiscal period and performed the procedures below for the 5 employees/officials selected in procedure #16.

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.).

No exceptions noted.

- b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

For 2 out of 5 employees tested, we noted no supervisor approval of employee timesheets.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

For the 5 employees tested, we noted only one took leave during the pay period. Leave documentation and cumulative leave record was not provided.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.:

A listing of employees/officials receiving termination payments during the fiscal period was provided.

From the listing provided, we selected 2 employees/officials and performed the specified procedures. For both employees selected, documentation was not provided.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

No exceptions noted.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above obtain ethics documentation from management, and:
- Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

For all 5 employees/officials selected for our procedures, documentation that the required ethics training was completed could not be obtained.

- Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity’s ethics policy during the fiscal period.

No exceptions noted.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management’s representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

Not applicable.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management’s representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

Not applicable.

Other

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management’s representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Management asserted that there were no misappropriations of public funds or assets during the fiscal year.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

The notice was not posted on the Entity’s website.

Corrective Action

25. Obtain management's response and corrective action plan for any exceptions noted in the above agreed-upon procedures.

See attached responses.

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.

Sincerely,

Postlethwaite & Netterville

December 21, 2018



South Louisiana Charter
FOUNDATION, INC.

Response to Exceptions in Statewide AUP Results

We have done a preliminary review of the recommendations provided in the AUP results. We are in agreement with the report as provided by Postlethwaite & Netterville. South Louisiana Charter Foundation will add policies and procedures and implement changes where necessary to meet the expectations identified in the report.

Signature: *Lindsey Lennon*

Title: Controller