
Northshore Charter School

Financial Statements

June 30, 2020

Northshore Charter School

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Independent Auditor's Report

To the Board of Directors
Northshore Charter School
Bogalusa, Louisiana

We have audited the accompanying financial statements of Northshore Charter School, a nonprofit organization, which comprise the statement of financial position as of June 30, 2020, the related statements of activities and changes in net assets, functional expenses, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Northshore Charter School'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 Northshore Charter School as of June 30, 2020, 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.

Report on Comparative Information

We have previously audited Northshore Charter School's 2019 financial statements, and our report dated December 20, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Northshore Charter School. The accompanying schedule of compensation, benefits, and other payments to school head at page 17 is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of compensation, benefits, and other payments to school head is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 schedule of compensation, benefits, and other payments to school head is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedules of performance statistical data at pages 21 – 22, as required by Louisiana state law and referred to in our independent accountant's reports on applying agreed-upon procedures at pages 18 – 20, have not been subjected to the auditing procedures applied in the audits of the basic financial statements. Accordingly, we do not express an opinion or provide any assurance on them.

To the Board of Directors
Northshore Charter School
Bogalusa, Louisiana

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2021, on our consideration of Northshore Charter School'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 Northshore Charter School's internal control over financial reporting and compliance.



Covington, Louisiana
January 15, 2021

Financial Statements

Northshore Charter School
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 920,612	\$ 323,006
Grants receivable	603,610	572,887
Prepaid expenses	18,423	44,625
	<u>1,542,645</u>	<u>940,518</u>
Fixed Assets		
Property and equipment, net	446,127	547,457
Other Assets		
Security deposits	32,429	32,429
	<u>\$ 2,021,201</u>	<u>\$ 1,520,404</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 819,092	\$ 248,122
Employee benefits payable	185,518	395,811
Accrued payroll expenses	205,111	201,104
Paycheck Protection Program Loan	561,809	-
	<u>1,771,530</u>	<u>845,037</u>
Noncurrent liabilities		
Accrued compensated absences	194,651	186,722
	<u>1,966,181</u>	<u>1,031,759</u>
Net Assets		
Without donor restrictions		
Undesignated	55,020	488,645
	<u>\$ 2,021,201</u>	<u>\$ 1,520,404</u>

See accompanying notes to financial statements.

Northshore Charter School
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

	2020	2019
Revenues		
State public school funding	\$ 5,583,741	\$ 5,361,077
Federal grants	323,251	182,930
Meal income	303,169	355,449
Other income	41,283	29,571
	<u>6,251,444</u>	<u>5,929,027</u>
Expenses		
Program expenses		
Regular education	2,757,729	2,772,879
Special education	497,012	502,209
Student support and school administration	1,544,796	1,556,018
Cafeteria	440,308	502,586
Transportation	315,947	298,412
	<u>5,555,792</u>	<u>5,632,104</u>
General administrative expenses	1,101,880	419,962
	<u>6,657,672</u>	<u>6,052,066</u>
Operating loss	<u>(406,228)</u>	<u>(123,039)</u>
Non-operating Expenses		
Loss on disposal of fixed assets	<u>(27,397)</u>	<u>-</u>
Change in net assets without donor restrictions	(433,625)	(123,039)
Net assets, beginning of year	488,645	655,803
Prior period adjustment (<i>see note 2</i>)	-	(44,119)
Net assets, end of year	<u>\$ 55,020</u>	<u>\$ 488,645</u>

See accompanying notes to financial statements.

Northshore Charter School
Statement of Functional Expenses
For the Year Ended June 30, 2020
(with summarized comparative information for the year ended June 30, 2019)

	Program Expenses					Total Program Expenses	Support	2020 Total Expenses	2019 Total Expenses
	Regular Education	Special Education	Student Support and School Administration	Cafeteria	Transportation		General Administrative Expenses		
Salaries and wages	\$ 1,520,913	\$ 400,647	\$ 786,864	\$ 152,785	\$ 279,097	\$ 3,140,306	\$ 107,213	\$ 3,247,519	\$ 3,153,433
Employee benefits	934,987	56,609	120,313	39,840	24,907	1,176,656	25,735	1,202,391	1,306,764
Educational supplies	79,860	328	-	-	-	80,188	-	80,188	72,065
Meals purchased	-	-	-	153,390	-	153,390	-	153,390	168,691
Cafeteria supplies	-	-	-	18,734	-	18,734	-	18,734	20,356
School activity fund	-	-	14,274	-	-	14,274	14,274	28,548	15,502
Rents and leases	195,742	32,546	69,405	20,138	-	317,831	15,696	333,527	368,768
Repairs and maintenance	-	-	57,129	16,001	6,475	79,605	11,329	90,934	124,135
Utilities	-	-	59,871	17,374	-	77,245	12,035	89,280	79,932
Depreciation	-	-	67,909	11,096	2,532	81,537	5,836	87,373	113,121
Insurance	18,389	4,614	9,122	1,855	2,936	36,916	113,353	150,269	148,945
Tax penalties and interest	-	-	-	-	-	-	666,169	666,169	-
Professional services	-	-	1,758	-	-	1,758	42,601	44,359	23,024
Staff development	7,838	2,268	-	-	-	10,106	-	10,106	14,929
Office supplies and services	-	-	357,584	9,095	-	366,679	85,658	452,337	425,724
Marketing	-	-	-	-	-	-	1,981	1,981	3,993
Travel	-	-	567	-	-	567	-	567	12,684
	<u>\$ 2,757,729</u>	<u>\$ 497,012</u>	<u>\$ 1,544,796</u>	<u>\$ 440,308</u>	<u>\$ 315,947</u>	<u>\$ 5,555,792</u>	<u>\$ 1,101,880</u>	<u>\$ 6,657,672</u>	<u>\$ 6,052,066</u>

See accompanying notes to financial statements.

Northshore Charter School
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (406,228)	\$ (123,039)
Adjustments to reconcile the decrease in net assets to cash provided by operating activities:		
Depreciation	87,373	113,121
Loss from the disposal of fixed assets	27,397	-
(Increase) decrease in:		
Grants receivable	(30,723)	436,299
Prepaid expenses	26,202	35,112
Increase (decrease) in:		
Accounts payable	570,970	13,676
Retirement payable	(210,293)	(59,944)
Accrued expenses	4,007	(73,581)
Accrued compensated absences	7,929	(41,711)
Net cash provided by operating activities	<u>76,634</u>	<u>299,933</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(40,837)	-
Net cash used in investing activities	<u>(40,837)</u>	<u>-</u>
Cash Flows From Financing Activities		
Proceeds from the Paycheck Protection Program loan	561,809	-
Net cash provided by financing activities	<u>561,809</u>	<u>-</u>
Increase in cash and cash equivalents	597,606	299,933
Cash and cash equivalents, beginning balance	<u>323,006</u>	<u>23,073</u>
Cash and cash equivalents, ending balance	<u>\$ 920,612</u>	<u>\$ 323,006</u>

See accompanying notes to financial statements.

Northshore Charter School

Notes to Financial Statements

1. History and Summary of Significant Accounting Policies

Nature of Operations

Northshore Charter School, Inc. (the “School”), was created as a non-profit corporation under the laws of the State of Louisiana (the “State”) on June 11, 2012. On July 1, 2013 the School was granted a five year charter by the Louisiana Board of Elementary and Secondary Education (“BESE”) to operate a Type 2 charter school. As of July 1, 2017, the School converted to a Type 1 charter school. Under this charter, Bogalusa City School Board is responsible for the oversight of the School. The School has a Board of Directors serving on a voluntary basis which governs the School’s finances, operations, and administration. The School serves eligible students in kindergarten through the twelfth grade.

Financial Statement Presentation

The financial statements of the School are presented in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Not-for-Profit Organizations* (the “Guide”).

Net Assets

Under the provisions of the Guide, the classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the classes of net assets be displayed in the Statements of Financial Position and that the amounts of change in each of those classes of net assets be displayed in the Statements of Activities. In accordance with U.S. generally accepted accounting principles (U.S. GAAP), the School reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

- Net assets without donor restriction: net assets available for general use to support operations. The only limits on the use of net assets without donor restriction are broad limits resulting from the nature of the School, the environment in which it operates, and the purposes specified in its corporate documents.
- Net assets with donor restriction: net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or programmatic purposes specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

When both net assets without donor restrictions and net assets with donor restriction are available for use, it is the School’s policy to use net assets with donor restrictions first, then net asset without donor restrictions.

Basis of Accounting

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

Northshore Charter School

Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses reported during the period. Actual results could differ from those estimates.

Reclassifications

Certain revenue and expense accounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. These reclassifications had no effect on net assets.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present certain categories of expenses that are attributable to both program services and supporting activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries are allocated on the basis of estimates of time and effort and other natural costs are allocated on the basis of management identification based on observation and professional evaluation of the direct benefit of the cost to a particular program function or supporting function.

The functional expenses presented for the year ended June 30, 2019 is summarized and is not a complete presentation in conformity with Generally Accepted Accounting Principles.

Cash and Cash Equivalents

For financial statement purposes, cash includes demand deposits. All highly liquid investments with an original maturity of three months or less are considered cash equivalents.

Prepaid Expenses

Prepaid expenses consist of upfront costs paid upon the commencement of an operating lease for modular buildings. The costs are to be amortized over the life of the lease.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and is depreciated using the straight-line method over the estimated useful life between 5 – 15 years. Betterments of \$5,000 or more that naturally add to the value of related assets or materially extend the useful lives of assets are capitalized. Expenses for repairs and maintenance are recorded as operating expenses as occurred.

All assets acquired with Louisiana Department of Education funds are owned by the School while used in the purpose for which they were purchased. The Louisiana Department of Education, however, has a reversionary interest in these assets. Should the charter not be renewed, title in any assets purchased with those funds will transfer to the appropriate agency.

Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in revenues or expenses.

Northshore Charter School

Notes to Financial Statements

Receivables

Grants receivable consist of federal and state funds passed through Bogalusa City School Board. Management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the entity, the School's relationship with the entity, and the age of the receivable balance. As a result of these reviews, management has deemed all receivables at June 30, 2020 and June 30, 2019 to be collectible.

Revenues

The School's primary source of funding is through monthly payments from the Minimum Foundation Program ("MFP") funded by the State Public School Fund and BESE based upon per eligible student in attendance at the official pupil count date of October 1 each year. State and federal grants are on a cost reimbursement basis. An accrual is made when eligible expenses occur.

Compensated Absences

Employees earn 10 days paid leave per year to be used in the event of their own illness, an immediate family member's illness, bereavement, visits to required medical practitioners, or personal business. Unused leave can be carried from one year to the next, not to exceed 90 days. Upon retirement and/or death, an employee will be paid any unused leave not to exceed 300 hours. At June 30, 2020 and 2019, the School had accrued compensated absences of \$194,651 and \$186,722, respectively. The liability is reflected in the statement of financial position as a noncurrent liability. Only the compensated absences payable to current terminating employees are reported as current liabilities.

Marketing

Marketing costs are expensed as incurred and reported as general administrative expenses. Marketing expense was \$1,981 and \$3,993 for the years ended June 30, 2020 and 2019, respectively.

Income Taxes

The School has been recognized by the Internal Revenue Service as an organization exempt from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in these financial statements. With few exceptions, the School is no longer subject to federal or state examinations by tax authorities for years prior to 2017.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the School may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position.

New Pronouncements

- In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. Under ASU 2016-02, leases will continue to be differentiated between finance leases and operating leases. However, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term for financing leases in addition to operating leases with a term of twelve months or more. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact ASU 2016-02 will have on the School's financial statements.

Northshore Charter School

Notes to Financial Statements

- On June 21, 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this update will assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 became effective in the current fiscal year and had no effect on net assets.

2. Restatement of Net Assets

On May 31, 2019 the School privatized one Louisiana School Employees' Retirement System ("LSERS") position. According to Louisiana Revised Statute 11:1195.1 and 11:1195.2 and since this salaried position has been privatized and is no longer available to contribute that portion of the employer's contribution attributable to amortizing the unfunded accrued liability, the School is responsible to LSERS for the unfunded accrued liability of \$44,119 as of June 30, 2019. Therefore, the School restated net assets to reflect the liability owed:

	As Previously Stated 06/30/19	Adjustment	As Restated 06/30/19
Statement of Financial Position			
Unrestricted net assets	\$ 532,764	\$ (44,119)	\$ 488,645

The \$44,119 unfunded accrued liability attributable to the School, when amortized over a statutorily required ten year period, results in annual payments of \$5,871 beginning on December 1, 2019. The lump sum payments or annual amortization payments received after December 1st will accrue interest at 7.0% from the due date until the date paid. The balance due at June 30, 2020 is \$38,248 and reported within the employee benefits payable balance on the statement of financial position.

3. Liquidity and Availability of Financial Assets

The School has \$1,524,222 of financial assets available within one year of the statement of financial position date to meet cash needs for general and operating expenditures, consisting of cash of \$920,612 and grants receivable of \$603,610. There are no amounts unavailable for general use due to contractual or donor imposed restrictions within one year of the statement of financial position date.

As part of the School's liquidity management, cash is kept in various checking accounts that can be accessed to meet daily needs of the School.

Northshore Charter School

Notes to Financial Statements

4. Property and Equipment

Property and equipment consists of the following at June 30:

	2020	2019
Furniture, fixtures, and equipment	\$ 428,686	\$ 437,765
Leasehold improvements	580,044	617,319
	<u>1,008,730</u>	<u>1,055,084</u>
Less: accumulated depreciation	(562,603)	(507,627)
	<u>\$ 446,127</u>	<u>\$ 547,457</u>

Depreciation expense for the years ended June 30, 2020 and 2019, was \$87,373 and \$113,121, respectively.

5. Retirement Plans

Substantially all employees of the School are members of the Teachers' Retirement System of Louisiana (the "TRSL") or the Louisiana School Employees' Retirement System (the "LSERS"). These systems are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. Pertinent information relative to these plans follows:

Teachers' Retirement System of Louisiana

The Teachers' Retirement System of Louisiana (the "TRSL") is a cost sharing, multiple-employer governmental defined benefit plan qualified under Section 401(a) of the Internal Revenue Code. The TRSL provides retirement benefits as well as disability and survivor benefits to eligible participants. The TRSL issues a publicly available financial report that includes financial statements and required supplementary information for the TRSL. That report may be obtained by writing to the Teachers' Retirement System of Louisiana, P.O. Box 94123, Baton Rouge, LA 70804.

Participants vest immediately in employee contributions to the plan. Retirement benefits vest after five years of service if the employee reaches age sixty; otherwise, benefits vest after twenty years of service. Benefits are established and amended by state statute. Upon retirement, participants may select from eight retirement payment options.

Participants are required to contribute 8.00% of their annual covered payroll to the TRSL. The School is required to contribute at an actuarially determined rate. The rate was 26.00% and 26.70% of annual eligible covered payroll for the years ended June 30, 2020 and 2019, respectively. Member contributions and employer contributions for the TRSL are established by state law, and rates are established by the Public Retirement System's Actuarial Committee. The School's contributions to TRSL were \$738,102 and \$813,698 for the years ended June 30, 2020 and 2019, respectively, and are included in employee benefits on the statement of functional expenses.

Northshore Charter School

Notes to Financial Statements

Louisiana School Employees' Retirement System

The State of Louisiana School Employees' Retirement System (the "LSERS") was established and provided for by Louisiana R.S. 11:1001 as a cost-sharing, multiple employer defined benefit pension plan under section 401(a) of the Internal Revenue Code. The LSERS provides retirement benefits as well as disability and survivor benefits to all eligible school bus operators, school janitors, school custodians, school maintenance employees, and school bus aides. The LSERS issues a publicly available financial report that includes financial statements and required supplementary information for the LSERS. The report may be obtained by writing to the Louisiana School Employees' Retirement System, P.O. Box 44516, Baton Rouge, Louisiana 70804.

Participants vest immediately in employee contributions to the plan. Ten years of service credit is required to become vested for retirement benefits and five years to become vested for disability and survivor benefits. Benefits are established and amended by state statute.

Plan members are required to contribute 8.00% of their annual covered salary, and employers contributed 29.40% and 28.00% of annual eligible covered payroll for the years ended June 30, 2020 and 2019, respectively. Member contributions and employer contributions for the LSERS are established by state law, and rates are established by the Public Retirement System's Actuarial Committee. The School's contribution to LSERS were \$49,962 and \$42,369 for the years ended June 30, 2020 and 2019, respectively.

6. Shared Services Agreement

In April 2018, the School and Bogalusa City School Board ("BCSB") entered into a contract for BCSB to provide the following services to the School:

- Anzio Software: annual software license for financial management and accounting software and includes software maintenance and technical support - \$8,500 annually (25% of the total cost to BCSB)
- EdGear JCampus Software: annual software license for student records management and includes annual software maintenance and technical support - \$13,750 annually (25% of the total cost to BCSB)
- Title I Crate Software: annual software license for grant management and includes annual maintenance and technical support - \$1,350 annually
- Special Education, Pupil Appraisal, and Related Services: provision of services and administrative support - \$170,458 annually (25% of the total cost to BCSB)
- Alternative Education Program Services: program administration and two teachers - \$52,685 annually (25% of the total cost to BCSB)

Northshore Charter School

Notes to Financial Statements

7. Commitments

Operating Leases

On May 22, 2014, as amended in September 2018, the School entered into an operating lease agreement for modular buildings. The term of the lease is 72 months with equal monthly payments of \$11,853 beginning August 2014 with the final payment due July 2021.

On April 8, 2015, the School entered into an operating lease agreement for a modular building. The term of the lease is 60 months with equal monthly payments of \$6,951 beginning July 2015 with the final payment due June 2020.

In March 2016, the School entered into an operating lease agreement for a modular building. The term of the lease is 60 months with equal monthly payments of \$5,790 beginning July 2016 with the final payment due June 2021.

Future minimum payments under these agreements are as follows:

For the Year Ended June 30:	Amount
2021	81,333
	\$ 81,333

Offer Letters

The School has offer letters with most of its employees. The offer letters for the current year expired June 30, 2020. All offer letters provide for a minimum annual salary and other benefits.

8. Contingency

Funding

The continuation of the School is contingent upon legislative appropriation or allocation of funds necessary to fulfill the requirements of the charter contract with Bogalusa City School Board. If the State of Louisiana legislature fails to appropriate sufficient monies to provide for the continuation of the charter contract, or if such appropriation is reduced by veto of the governor or by any means provided in the appropriations act to prevent the appropriation for the year from exceeding revenues for that year, or for any other lawful purpose, and the effect of such reduction is to provide insufficient monies for the continuation of the charter contract, the contract shall terminate on the date of the beginning of the first fiscal year for which funds are not appropriated. An estimate of possible loss or range of loss cannot be made.

Northshore Charter School

Notes to Financial Statements

Disruption of Operations

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closure of businesses and other institutions. The School has been affected by the COVID-19 restrictions in the state of Louisiana and the impacts of COVID-19 may have a material adverse impact on its results of operations, financial position and cash flows in 2021. The extent of the impact of COVID-19 on operational and financial performance is uncertain and will depend on variables including duration and spread of the outbreak, impact on donors, employees and suppliers. At this point the extent to which COVID-19 may impact the School's operations, financial condition and cash flows cannot be reasonably estimated.

9. Paycheck Protection Program Loan

The School obtained a loan in the amount of \$561,809 through the Paycheck Protection Program administrated by the U.S. Small Business Administration which is part of the Coronavirus Aid Relief and Economic Security Act. The original loan agreement was written prior to the RPR Flexibility Act of 2020 (June 5) and was due over twenty-four months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The RPR Flexibility Act and subsequent regulations supersede the loan agreement. The RPR Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the organization fails to apply for forgiveness within ten months after the covered period, then payment of principal and interest shall begin on that date.

These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. To the extent that all or part of the RPR Loan is not forgiven, the School will be required to pay interest on the RPR Loan at a rate of 1.0% per annum, and commencing in 2021. Management anticipates the loan will be forgiven under the terms of the program.

10. IRS Assessed Penalties and Interest

During the current fiscal year, the School received several notices from the Internal Revenue Service ("IRS") indicating the School owed the IRS a total of \$666,169 for civil penalties and interest related to the calendar years 2014, 2015, 2016, and 2017. According to the IRS, the civil penalties and interest were levied against the School for late payments of payroll tax deposits due to the United States Treasury; late submissions of IRS Form 941 to the Internal Revenue Service; and failure to submit Form W2s to the Social Security Administration.

Management is currently working with tax advisors to dispute the assessment of such penalties and interest and attempt to alleviate the School of such amounts. Due to the uncertainty of whether or not the penalties and interest will be removed or reduced, the School must report a liability of \$666,169 as accounts payable on the statement of financial position and the related expense as tax penalties and interest under general administrative expenses on the statement of functional expenses. Financials will be revised in the upcoming fiscal year to reflect any respite from the penalties and interest cited.

Northshore Charter School

Notes to Financial Statements

11. Board Member Compensation

<u>Board Member</u>	<u>Amount</u>
Reginald "Bubba" Bourne	\$ -
Theresa Glenn	-
Lisa Miles	-
Roosevelt Ludd	-
Cindy Bourne	-
Tiye Yayu	-
	<u>\$ -</u>

12. Subsequent Events

Management has evaluated subsequent events through January 15, 2021, which is the date the financial statements were available to be issued.

Supplementary Information

Northshore Charter School
Schedule of Compensation, Benefits, and Other Payments to School Head
For the Year Ended June 30, 2020

School Head: Linda McCullough
Position: Principal

Purpose	Amount
Salary	\$ 119,723
Benefits - insurance	11,386
Benefits - retirement	31,846
	<u>\$ 162,955</u>

Schedules Required by Louisiana State Law
(R.S. 24:514 – Performance and Statistical Data)

**Independent Accountant’s Report
on Applying Agreed-Upon Procedures**

To the Board of Directors and Management
Northshore Charter School
Bogalusa, Louisiana

We have performed the procedures included in the *Louisiana Governmental Audit Guide* and enumerated below, which were agreed to by the management of Northshore Charter School (the “School”), the Louisiana Department of Education, and the Louisiana Legislative Auditor (the “specified users”) solely to assist users in evaluating management's assertions about the performance and statistical data accompanying the annual financial statements of the School 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. The sufficiency of these procedures is solely the responsibility of the specified users of the 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.

Our procedures and findings related to the accompanying schedules of performance and statistical data are as follows:

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

1. Select a random sample of 25 transactions and review supporting documentation to determine if the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following amounts reported on the schedule:
 - 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

Results

No exceptions noted. See Schedule 1.

Class Size Characteristics (Schedule 2)

2. Obtain a list of classes by school, school type, and class size as reported on Schedule 2. Trace a sample of 10 classes to the October 1st roll books for those classes and observe that the class was properly classified on the schedule.

Results

No exceptions noted. See Schedule 2.

Education Levels of Public School Staff (No Schedule)

3. Obtain 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 and experience, and obtain management's representation that the data/listing is complete. Select a sample of 25 individuals, trace to each individual's personnel file, and observe that each individual's education level and experience was property classified on the PEP data or equivalent listing prepared by management.

Results

Two teachers were documented with the incorrect teaching certificate level. One teacher was documented with a Level 1 teaching certificate and a second teacher was documented with a Level 4 teaching certificate. However, the two teachers both had a Level 2 teaching certificate.

Public School Staff Data: Average Salaries (No Schedule)

4. We will obtain 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 obtain management's representation that the data/listing is complete. We will then select a sample of 25 individuals, trace to each individual's personnel file, and observe that each individual's salary, extra compensation, and full-time equivalents were properly included on the PEP data (or equivalent listing prepared by management).

Results

We noted the following exception as a result of applying the above procedures:

1. ***Education Level of Public School Staff***

Two teachers were documented with the incorrect teaching certificate level. One teacher was documented with a Level 1 teaching certificate and a second teacher was documented with a Level 4 teaching certificate. However, the two teachers both had a Level 2 teaching certificate.

Management's Response and Correction Action

1. The School will implement policies to ensure all teachers experience is confirmed and accurately documented.

This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants and applicable provisions of *Government Auditing Standards* published by the United States Comptroller General. We were not engaged to, and did not perform 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 School as required by Louisiana Revised Statute 24:514.I and the results 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.

A handwritten signature in black ink that reads "Russell S. Martineau, LLC". The signature is written in a cursive, flowing style.

Covington, Louisiana
January 15, 2021

Northshore Charter School
General Fund Instructional and Support Expenditures
and Certain Local Revenue
For the Year Ended June 30, 2020

Schedule 1

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures

Teacher and Student Interaction Activities

Classroom Teacher Salaries	\$ 1,632,287
Other Instructional Staff Salaries	284,581
Instructional Staff Employee Benefits	1,019,291
Purchased Professional and Technical Services	1,503
Instructional Materials and Supplies	80,188
Instructional Equipment	-
Total Teacher and Student Interaction Activities	<u>3,017,850</u>

Other Instructional Activities -

Pupil Support Services 302,826

Less: Equipment for Pupil Support Services -

Net Pupil Support Services 302,826

Instructional Staff Services 135,443

Less: Equipment for Instructional Staff Services -

Net Instructional Staff Services 135,443

School Administration 778,870

Less: Equipment for School Administration -

Net School Administration 778,870

Total General Fund Instructional Expenditures \$ 4,234,989

Total General Fund Equipment Expenditures \$ -

Certain Local Revenue Sources

Local Taxation Revenue \$ -

Local Earnings on Investment in Real Property -

State Revenue in Lieu of Taxes -

Nonpublic Textbook Revenue -

Nonpublic Transportation Revenue -

Northshore Charter School
Class Size Characteristics
As of October 1, 2019

Schedule 2

School Type	Class Size Range							
	1-20		21-26		27-33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Combination	43%	10	48%	11	9%	2	0%	0

See independent accountant's report on applying agreed-upon procedures.

*Reports Required by
Government Auditing Standards*

**Independent Auditor’s 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
Northshore Charter School
Bogalusa, 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 Northshore Charter School (the “School”), a nonprofit organization, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School’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 School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item **2020-1**, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northshore Charter School's Response to Findings

The School's response to the findings identified in our audit is described in the letter following the summary of auditor's results and schedule of findings. The School's responses were 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Covington, Louisiana
January 15, 2021

Northshore Charter School
Summary of Auditor’s Results and Schedule of Findings
For the Year Ended June 30, 2020

A. Summary of Audit Results

Financial Statements

- a. Type of auditor's report issued: Unmodified
- b. Internal control over financial reporting:
- | | | | |
|---|---------------|-----|---------------|
| Material weaknesses identified | _____ ✓ _____ | yes | _____ no |
| Significant deficiencies identified that are not considered to be material weaknesses | _____ | yes | _____ ✓ _____ |
| | | | none noted |
- c. Noncompliance material to financial statements noted
- | | | | |
|--|-------|-----|---------------|
| | _____ | yes | _____ ✓ _____ |
| | | | no |

* *A management letter has been issued for the year ended June 30, 2020.*

B. Findings Related to the Financial Statements Reported in Accordance with Government Auditing Standards

2020 –1 Material Weakness: Payroll Taxes and Reports

Criteria

The Internal Revenue Service (“IRS”) assessed civil penalties and interest on the School totaling \$666,196 related to the calendar years 2014, 2015, 2016, and 2017 for late payments of payroll tax deposits due to the United States Treasury; late submissions of IRS Form 941 to the Internal Revenue Service; and failure to submit Form W2s to the Social Security Administration.

The civil penalties and interest accumulated over time due to the previous Chief Financial Officer discarding the IRS notices and not bringing the notices to the attention of those with oversight.

Condition

Payroll taxes and payroll reports should be remitted timely to ensure civil penalties and interest are not assessed against the School. IRS notices / communications should be provided to someone who does not oversee the payroll process, preferably a Board member.

Cause

Insufficient oversight of the payroll process during the 2014 through 2017 calendar years. In addition, all communications from the Internal Revenue Service were given directly to the previous Chief Financial Officer which were not properly addressed. No one with oversight was aware these notices were being sent to the School resulting in no action being taken sooner.

Northshore Charter School
Summary of Auditor's Results and Schedule of Findings
For the Year Ended June 30, 2020

Effect

The School may be liable to the IRS for civil penalties and interest totaling \$666,196.

Recommendation

We recommend all communications from the Internal Revenue Service be provided to someone other than the individual overseeing the payroll process, preferably a Board member.

The School already outsourced payroll to a third party payroll provider during the 2018 fiscal year which should minimize the likelihood of payroll taxes and payroll reports not being submitted timely in the future. Also, the previous Chief Financial Officer is no longer employed by the School.

Management's Response and Corrective Action Plan

See management's response and corrective action plan in the attached letter.



111 Walker St. Bogalusa, LA 70427 | 985.732.0005 | www.northshorecharterschool.org

January 15, 2021

Louisiana Legislative Auditor

Northshore Charter School respectfully submits the following corrective action plan for the year ending June 30, 2020.

Name and address of independent public accounting firm:

Pinell & Martinez, LLC
308 Tyler Street, Suite 2
Covington, Louisiana 70433

Audit Period: July 1, 2019 - June 30, 2020

The finding from the June 30, 2020 is discussed below.

Finding 2020 – 1 **Material Weakness: Payroll Taxes and Reports**

Recommendation:

We recommend all communications from the Internal Revenue Service be provided to someone other than the individual overseeing the payroll process, preferably a Board member.

Management's Response and Corrective Action Plan:

The School has already begun to give all IRS Notices to the CEO/Principal, who then forwards them to the Board Finance Chair.

If there are any questions regarding this plan, please contact Dee Dee McCullough, CEO/Principal at 985-746-6989.

Sincerely,

Dee Dee McCullough, Principal

Signature/Title

Northshore Charter School
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2020

**A. Findings Related to the Financial Statements Reported in Accordance with
*Government Auditing Standards***

2019-1 Material Weakness: Disbursements

Condition and Criteria

An important element of internal control over disbursements is for management to review supporting documentation before a disbursement is made to ensure the disbursement is proper and accurate. However, we discovered the School provided a teacher with a rental car for travel to a conference during the 2018 fiscal year even though the teacher submitted a mileage reimbursement request for \$1,424 which management paid. Management detected the overpayment during the 2019 fiscal year and recouped the \$1,424.

In addition, an employee notified management that she closed her bank account at Capital One and did not receive her direct deposit; therefore, management issued the employee a paper check. However, the direct deposit to Capital One cleared. This resulted in the employee being overpaid by \$1,220 during the 2018 fiscal year. The overpayment was detected during the 2019 fiscal year, and the employee has since reimbursed the School \$1,220.

Cause

Insufficient review of documentation prior to making disbursements.

Effect

Disallowed disbursements totaling \$2,644 were made during the 2018 fiscal year; nevertheless, management recouped the funds in the 2019 fiscal year.

Recommendation

We recommend management to obtain all supporting documentation and review the documentation for accuracy prior to making a disbursement.

Management's Response and Corrective Action Plan

This prior year finding was addressed by management.

2019-2 Material Weakness: Late Submission of Employee Benefit Payments

Condition and Criteria

Retirement withholdings and contributions should be submitted timely to ensure employees' retirement accounts are earning the correct amount of interest. Health insurance premiums must be submitted timely to ensure no interruption in coverage.

Our audit discovered the School failed to submit employee benefits in a timely manner. Employees' portion of retirement withholdings totaling \$34,107 from the 2018 fiscal year; employer's portion of retirement benefits totaling \$114,353 from the 2018 fiscal year; and employer's portion of retirement contributions totaling \$78,916 from the 2019 fiscal year (total of \$227,377) was submitted July 23, 2019. In addition, health insurance premiums for the months of May and June 2019 totaling \$98,222 were submitted on August 12, 2019.

Northshore Charter School
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2020

Cause

Lack of oversight by the School to ensure benefit payments are being made timely and accurately.

Effect

Employees' retirement accounts may have accumulated more earnings if retirement withholdings and contributions were submitted timely.

Recommendation

We recommend management to review payroll related items each pay period to ensure all withholdings and contributions are submitted timely.

Management's Response and Corrective Action Plan

This prior year finding was addressed by management.

Management Letter

To the Board of Directors
Northshore Charter School
Bogalusa, 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 Northshore Charter School (the "School"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 15, 2021.

During our audit, we became aware of a matter that is an opportunity for strengthening internal controls. This letter summarizes our comments and suggestion concerning this matter. This letter does not affect our report dated January 15, 2021, on the financial statements of the School.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the School's management, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendation. Our comments are summarized as follows:

As part of our audit, we tested bank reconciliations for accuracy and completeness. Our testing indicated the following:

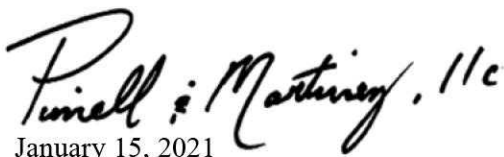
Bank Reconciliation – Operating Account

- 5 checks totaling \$3,731 that have been outstanding for more than six months

Bank Reconciliation – School Activity

- 8 outstanding checks totaling \$240 that have been outstanding for more than six months
- 1 outstanding check for \$330 was entered as an outstanding deposit on the bank reconciliation and remains uncleared
- 2 deposits totaling \$1,064 that have been outstanding for more than six months. These were made in error but not removed from the bank reconciliation

We recommend management to review the bank reconciliations for errors and for items that remain outstanding for more than 90 days to determine if the transactions should be removed from the bank reconciliations.


January 15, 2021
Covington, Louisiana