
REGINA COELI CHILD DEVELOPMENT CENTER

FINANCIAL STATEMENTS

MAY 31, 2017



Postlethwaite & Netterville

A Professional Accounting Corporation

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REGINA COELI CHILD DEVELOPMENT CENTER

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Regina Coeli Child Development Center
Robert, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Regina Coeli Child Development Center (the Center) (a nonprofit organization), which comprise the statements of financial position as of May 31, 2017 and 2016, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 Center as of May 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The supplementary information on page 16, which is the responsibility of management, is presented for purposes of additional analysis 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated November 30, 2017, on our consideration of the Center'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 Center's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
November 30, 2017

REGINA COELI CHILD DEVELOPMENT CENTER
ROBERT, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
MAY 31, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 298,201	\$ 306,441
Grants receivable	565,990	955,372
Insurance receivable	349,567	-
Prepaid expenses and other assets	2,181	2,188
Total current assets	1,215,939	1,264,001
<u>PROPERTY AND EQUIPMENT:</u>		
Land	999,658	999,658
Buildings	10,695,705	10,695,705
Leasehold improvements	1,293,104	1,304,004
Vehicles	1,091,112	1,032,231
Equipment	758,483	691,022
	14,838,062	14,722,620
Less: accumulated depreciation and amortization	(6,367,281)	(6,039,945)
Total property and equipment, net	8,470,781	8,682,675
<u>OTHER ASSETS:</u>		
Restricted cash for loan repayment	80,832	80,824
Property and equipment held for sale	-	80,000
Total other assets	80,832	160,824
Total assets	\$ 9,767,552	\$ 10,107,500

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES:</u>		
Accounts payable and accrued expenses	\$ 1,413,323	\$ 1,360,101
Notes payable, current portion	929,845	916,824
Total current liabilities	2,343,168	2,276,925
<u>LONG-TERM LIABILITIES:</u>		
Notes payable, net of current portion	1,140,150	1,503,549
Total long-term liabilities	1,140,150	1,503,549
Total liabilities	3,483,318	3,780,474
<u>NET ASSETS:</u>		
Unrestricted	6,284,234	6,327,026
Total liabilities and net assets	\$ 9,767,552	\$ 10,107,500

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

REGINA COELI CHILD DEVELOPMENT CENTER
ROBERT, LOUISIANA

STATEMENTS OF ACTIVITIES
YEARS ENDED MAY 31, 2017 AND 2016

	2017	2016
<u>REVENUES</u>		
Grants	\$ 14,884,567	\$ 14,970,796
Goods and services contributed	1,015,924	943,039
Cash contributions	168,035	84,720
Other income	715,015	47,286
	16,783,541	16,045,841
<u>EXPENSES</u>		
Personnel	9,459,760	9,419,975
Fringe benefits	1,784,401	1,769,363
Occupaney	1,028,439	764,818
Goods and services contributed	1,015,924	943,039
Other	887,086	299,198
Food costs	635,402	679,182
Depreciation	438,024	411,797
Travel	363,934	301,008
Other supplies	313,198	416,666
Educational supplies	244,535	411,659
Consultants	174,107	168,827
Insurance	160,383	167,801
Training	132,594	110,560
Interest	109,940	108,868
Fundraising costs	15,955	10,256
Loss on disposal of assets	62,651	-
Impairment losses on property and equipment held for sale	-	40,000
	16,826,333	16,023,017
<u>CHANGE IN NET ASSETS</u>	(42,792)	22,824
<u>NET ASSETS AT BEGINNING OF YEAR</u>	6,327,026	6,304,202
<u>NET ASSETS AT END OF YEAR</u>	\$ 6,284,234	\$ 6,327,026

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

REGINA COELI CHILD DEVELOPMENT CENTER
ROBERT, LOUISIANA

STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2017 AND 2016

	2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (42,792)	\$ 22,824
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of property and equipment	62,651	-
Impairment losses on property and equipment held for sale	-	40,000
Depreciation and amortization	441,334	415,107
Changes in operating assets and liabilities:		
Decrease in grants receivable	389,382	141,484
Increase in insurance receivable	(349,567)	-
Decrease in prepaid expenses and other assets	7	12,337
Increase (decrease) in accounts payable and accrued expenses	(116,733)	98,972
Net cash provided by operating activities	384,282	730,724
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(118,826)	(227,252)
Proceeds from the sale of property and equipment	80,000	-
Net cash used in investing activities	(38,826)	(227,252)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal payments on notes payable	(353,688)	(328,726)
Increase in restricted cash	(8)	(16)
Net cash used in financing activities	(353,696)	(328,742)
Net increase (decrease) in cash and cash equivalents	(8,240)	174,730
Cash and cash equivalents, beginning of year	306,441	131,711
Cash and cash equivalents, end of year	\$ 298,201	\$ 306,441
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest expense	\$ 160,383	\$ 167,801
Amounts included in accounts payable for property and equipment	\$ 169,955	\$ -

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

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

Regina Coeli Child Development Center (the Center) is a non-profit center that operates Head Start programs in Southeast Louisiana. The Center has been in existence since 1969. It operates fourteen centers, including Head Start and Early Head Start programs, in the five parishes of Livingston, St. Helena, St. Tammany, Tangipahoa, and Washington. The Center provided service to 1,943 and 1,856 children during the years ended May 31, 2017 and 2016, respectively. The goal of the Center is to improve the educational and economic opportunities of those it serves.

A summary of the Center's significant accounting policies consistently applied in the preparation of the accompanying financial statements are as follows:

Presentation

The Center has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 958-205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under FASB ASC No. 958-205, the Center 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 Center is required to present a statement of cash flows.

The Center has also adopted FASB ASC No. 958-605, *Revenue Recognition - Contributions Received*, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. The adoption had no cumulative effect on net assets at the date of the adoption. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the donor-imposed time or purpose restrictions. For the years ended May 31, 2017 and 2016, the Center had no temporarily restricted or permanently restricted revenues or net assets.

FASB ASC No. 958-605 requires that in-kind contributions be recorded at their fair market value and accounted for as revenue when received and as an asset, reduction in a liability or an expense depending on the form of the benefits received. Contributions of services are to be recognized if the services received either (1) enhance a non-financial asset or (2) require specialized skills and would need to be purchased if not provided by donation.

Services valued at \$2,318,108 and \$2,689,378 during the years ended May 31, 2017 and 2016, respectively, did not meet the criteria of FASB ASC No. 958-605 and were not recognized. The following is a recap of in-kind contributions recognized in the years ended May 31, 2017 and 2016:

	2017	2016
Occupancy and other operating expenses	\$ 330,307	\$ 378,050
Supplies	119,853	206,299
Rental of facilities	275,895	186,075
Transportation	288,789	129,542
Other services	1,080	43,073
Total	<u>\$ 1,015,924</u>	<u>\$ 943,039</u>

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. The financial statements of the Center are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Grant Support

The Head Start and Early Head Start funds from the Department of Health and Human Services are recognized as revenue based on the program's approved grant award. Funds due the Center are recognized as revenues in the accounting period when the expenses are incurred and the grant funds are earned. The Child Care Food Program revenue is based on a predetermined reimbursement rate for the number of meals served.

Cash and cash equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and having original maturities of three months or less.

Grants Receivable

Grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management determined that no year-end balances were deemed to be not collectible. Accordingly, a valuation allowance was determined to be unnecessary.

Estimates

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

Concentrations of Credit Risk

The Center periodically maintains cash in bank accounts in excess of insured limits. The Center has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950. 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 that guidance, the Center 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. Examples of tax positions include the tax-exempt status of the Center and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2017 and 2016.

Restricted Cash

Restricted cash reported as a non-current asset on the statements of financial position is restricted by the U.S.D.A. in order to conform to certain debt covenants.

Property and Equipment

All assets acquired having a cost or estimated fair value equal to or greater than \$5,000 are capitalized and depreciated.

Buildings, vehicles, and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation of all exhaustible fixed assets is charged as an expense. Depreciation has been calculated using the straight-line method. See note 7 to the financial statements regarding the restrictions on assets acquired.

The estimated useful lives of property and equipment are as follows:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40 Years
Modular building	15 Years
Vehicles	10 Years
Equipment	5 – 10 Years
Leasehold improvements	10 – 30 Years

In accordance with FASB ASC relating to accounting for the impairment or disposal of long-lived assets, an asset is determined to be impaired if the carrying amount may not be recoverable. The impairment loss is measured as the amount by which the carrying amount of the assets exceeds its fair value. Fair value is determined by using an independent appraisal based on market comparisons.

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

New Accounting Pronouncement

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* effective for annual reporting periods beginning after December 15, 2015. This ASU is required to be applied retrospectively to all periods presented beginning in the year of adoption. ASU 2015-03 requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. Additionally, the ASU requires the amortization of the debt issuance costs to be presented with interest expense. The Center adopted ASU 2015-03 during the fiscal year ended May 31, 2017. In accordance with the ASU, previously reported amounts have been reclassified to the current presentation. The adoption of ASU 2015-03 resulted in the reclassification of \$26,480 of unamortized debt issuance costs related to the Center's long-term liabilities (see Note 5) from other assets to long-term liabilities within its statement of financial position as of May 31, 2016. Amortization expense of \$3,310 was also reclassified to interest expense within the statement of activities for the year ended May 31, 2016. Other than these reclassifications, the adoption of ASU 2015-03 did not have an impact on the Center's financial statements.

Accounting Pronouncements Issued But Not Yet Adopted

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. Early application of the standard is permitted.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the balance sheet as well as additional disclosures. The updated guidance is effective for annual periods beginning after December 15, 2019.

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Issued But Not Yet Adopted (continued)

The Center is currently assessing the impact of these pronouncements on its consolidated financial statements.

2. Grants Receivable

Grants receivable at May 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Federal Grants		
Head Start Program	\$ 471,751	\$ 858,977
Child Care Food Program	94,239	96,395
Total	<u>\$ 565,990</u>	<u>\$ 955,372</u>

3. Property and Equipment Held for Sale and Impairments

The Center held property and equipment for sale at May 31, 2016. The property was recorded at the lower of cost or fair value and is reported as property and equipment held for sale in the accompanying statements of financial position. The impairment loss was measured as the amount by which the carrying amount of the assets exceeds its fair value. Included in expenses for the years ended May 31, 2016 is an impairment loss of \$40,000. The property and equipment was sold during the year ended May 31, 2017.

4. Retirement Plan

The Center sponsors a profit sharing plan under Section 404(c) of the Internal Revenue Code. The Plan is a defined contribution plan covering all full-time employees of the Center who are age eighteen or older. Employees are enrolled as active participants on the first day of the month coinciding with or immediately following the date eligibility requirements are met.

Each year, participants may make salary deferral contributions in any percentage from 1% to 100% of compensation subject to the maximum amount permitted by law. The value of a participant's account attributable to their contributions is always fully vested. Each plan year the Board of Directors will determine the amount of the employer contribution (if any) that will be made for all eligible participants who are actively employed on the last day of the plan year, which is May 31st. The plan has a five-year vesting schedule for employer contributions as follows:

<u>Year</u>	<u>Percent</u>
0 to less than 2 years	0%
2 years	25%
3 years	50%
4 years	75%
5 or more years	100%

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

4. Retirement Plan (continued)

A participant becomes fully vested in his or her entire account when he or she reaches either early retirement or normal retirement age.

During the years ended May 31, 2017 and 2016, \$384,128 and \$311,834, respectively, was contributed to the plan for the benefit of the plan participants employed by the Center, which is included in fringe benefits in the statements of activities.

5. Notes Payable

A summary of notes payable for purchases of Head Start facilities is as follows:

	<u>2017</u>	<u>2016</u>
4.875% Mortgage payable to U.S.D.A. Rural Economic and Community Development, secured by real estate, due in monthly installments of \$3,933 through August 2027.	\$ 381,821	\$ 409,663
6.00% Mortgage payable to an individual, secured by real estate, due in monthly installments of \$3,575 through October 2023.	228,041	256,336
Variable rate revenue bonds payable to a bank, secured by letter of credit from another bank, due in monthly payments of interest only, and one principal payment annually through July 2024. Fees for this loan include a trustee fee of \$1,500 annually, a remarketing fee of \$875 quarterly and a quarterly letter of credit fee calculated at 1.25% per annum of the outstanding principal balance. Variable interest rate, based on Barclays index, at May 31, 2017 and 2016.	907,418	1,193,500
4.89% Mortgage payable to a bank, secured by real estate. The terms of this agreement were updated during fiscal year 2017. Payment is due in monthly installments of \$4,538 through May 2022, with a lump sum final payment due June 1, 2022.	<u>575,885</u>	<u>587,354</u>
Total	2,093,165	2,446,853
Less: Current Portion	<u>(929,845)</u>	<u>(916,824)</u>
Total Long-Term Portion	1,163,320	1,530,029
Less: Loan Issuance Costs	<u>(23,170)</u>	<u>(26,480)</u>
Total Long-Term Portion, net	<u>\$ 1,140,150</u>	<u>\$ 1,503,549</u>

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

5. Notes Payable (continued)

The Center makes monthly payments on the revenue bonds to the paying agent who deposits the payments into an escrow account until the due date of the principal. The Center considers these monthly payments to the escrow agent as principal payments on variable rate revenue bonds.

Principal payments required in future years as of May 31, 2017, are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 378,579
2019	393,235
2020	413,058
2021	100,814
2022	106,269
Thereafter	<u>701,210</u>
Total	<u>\$ 2,093,165</u>

The Center's credit agreements require certain covenants to be met at the end of each fiscal year. As of May 31, 2017 and 2016, the Center obtained a waiver for items of non-compliance related to the timing of financial reporting. However, a waiver for the fixed charge coverage ratio has not been obtained. As a result, the mortgage payable in the amount of \$575,885 has been presented as a current liability in the financial statements for the fiscal year ended May 31, 2017.

In 2005, the Center incurred loan issuance costs of \$66,200. The Center amortizes these loan costs annually. The amortization expense was \$3,310 for each of the years ended May 31, 2017 and 2016 and is reported in the statement of activities as interest expense.

6. Operating Leases

The Center has commitments on one lease agreement for space rental as of May 31, 2017, as follows:

<u>Location in Louisiana</u>	<u>Lease Expiration</u>	<u>Monthly Payment</u>
Central Tangipahoa Head Start	September 2024	\$ 2,100

Total lease expense included in occupancy expense in the accompanying financial statements for obligations under this lease was \$25,200 and \$25,533 for each of the years ended May 31, 2017 and 2016, respectively. Annual lease commitments required in future years as of May 31, 2017, are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 25,200
2019	25,200
2020	26,000
2021	26,400
2022	26,400
Thereafter	<u>61,600</u>
Total	<u>\$ 190,800</u>

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

7. Restrictions on Assets

All assets acquired with Department of Health and Human Services funds are owned by the Center while used in the Head Start program for which they were purchased. The Department of Health and Human Services, however, has a reversionary interest in the assets purchased with grant funds, which includes all assets reported as fixed assets. Therefore, the disposition of these assets, as well as the ownership of any sale proceeds, is subject to the funding source requirements of the Department of Health and Human Services.

8. Contingencies

Use of Land

On January 30, 1998, the Center executed a cooperative endeavor agreement with the Louisiana Board of Trustees for State Colleges and Universities. Pursuant to the agreement, the Center receives the use of land for its center located on the campus of Southeastern Louisiana University at no cost for an initial term of fifteen years. In February 2013 an amendment to the original agreement was signed, amending the original term of the agreement to twenty years. At termination of the agreement or upon default of the Center, the modular buildings at that location would have to be relocated.

Grant Programs

The Center participates in a number of federal programs which are governed by various rules and regulations. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Center has not complied with the rules and regulations governing the grants, refunds of any money received and the collectability of any related receivable as of May 31, 2017 might be impaired. In management's opinion, there are no significant contingent liabilities relating to compliance with the rules and regulations governing state and federal grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Audits of prior years have not resulted in any significant disallowed costs or refunds. Any costs that would be disallowed would be recognized in the period agreed upon by the grantor agency and the Center.

9. Board of Directors Compensation

The members of the Center's board of directors were not compensated during the years ended May 31, 2017 and 2016.

10. Economic Dependency

The Center receives the majority of its revenue in the form of grants from the U.S. Department of Health and Human Services. The grant amounts are appropriated each year by the federal government. If significant budget cuts are made at the federal level, the amount of funds the Center receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will significantly affect the amount of funds the Center will receive in fiscal year 2018 relating to its grant awards.

REGINA COELI CHILD DEVELOPMENT CENTER

NOTES TO FINANCIAL STATEMENTS

11. Insurance Proceeds

In August 2016, prolonged rainfall resulted in catastrophic flooding in the southern part of Louisiana that severely damaged two of the Center's fourteen locations and resulted in curtailed operations at most locations. Insurance recoveries related to this event are recognized when they are probable of receipt. During 2017, the Center recognized insurance proceeds revenue of \$658,921. This amount is reported as other income in the statement of activities. Of this amount, \$349,567 is included in insurance receivable in the statement of financial position.

12. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 30, 2017, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTARY INFORMATION

REGINA COELI CHILD DEVELOPMENT CENTER
SCHEDULE OF COMPENSATION, BENEFITS, AND
OTHER PAYMENTS TO AGENCY HEAD
YEAR ENDED MAY 31, 2017

Agency Head: Susan Spring, Executive Director

Purpose:	Amount
Salary	\$ 79,284
Benefits – life insurance	52
Benefits - retirement	3,842
Car related expenses	915
Per diem	551
Conference travel	607
Travel – hotels/housing	1,087
Total	<u>\$ 86,338</u>

REGINA COELI CHILD DEVELOPMENT CENTER

SCHEDULE OF INSURANCE COVERAGE
(UNAUDITED)
AS OF MAY 31, 2017

Insurer	Policy Expiration Date	Type of Coverage	Amount of Coverage
Arch Insurance Group	5/2017	Business Auto	
		Bodily Injury	\$ 1,000,000
		Uninsured	1,000,000
		Underinsured	1,000,000
		Medical Expense	5,000
		General Liability	
		Aggregate	\$ 3,000,000
		Products/Completed Operations	3,000,000
		Personal/Advertising	1,000,000
		Bodily Injury & Property Damage	100,000
		Fire Damage	100,000
		Medical Expense	5,000
		Professional Liability	
		Aggregate	3,000,000
		Each Incident	1,000,000
		Sexual or Physical Abuse	1,000,000
		Employee Benefits Liability	1,000,000
		Inland Marine	\$ 21,188
		Commercial Property	
		Buildings	\$ 16,392,700
		Personal Property	3,319,600
		Fencing	81,000
		Playground Equipment	228,000
Business Income Interruption	4,100,000		
Umbrella	\$ 5,000,000		
Student Accident			
Benefit Maximum	\$ 250,000		
Accidental Death	10,000		
Accidental Dismemberment	10,000		
Accidental Medical/Dental	50,000		
Travelers Insurance Co.	6/2017	WRAP Policy	
		Directors and Officers Liability	\$ 1,000,000
		Employment Practices Liability	3,000,000
		Fiduciary Liability	1,000,000
		Settlement Program	100,000
HIPAA Limit of Liability	100,000		
LWCC	5/2017	Workers Compensation	
		Bodily Injury by Accident	\$ 1,000,000
		Bodily Injury by Disease	1,000,000
Wright	4/2018	Flood Insurance - Building	
		Robert Head Start	\$ 500,000
		Robert Warehouse	188,000
		Lacombe Head Start	500,000
		Slidell Head Start	500,000
	8/2017	Pearl River Head Start	500,000
	4/2018	Flood Insurance - Contents	
		Robert Head Start	\$ 281,500
		Robert Warehouse	50,000
		Lacombe Head Start	165,400
		Slidell Head Start	157,500
8/2017		Pearl River Head Start	200,000

REGINA COELI CHILD DEVELOPMENT CENTER

SINGLE AUDIT REPORT

MAY 31, 2017



Postlethwaite & Netterville

A Professional Accounting Corporation

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REGINA COELI CHILD DEVELOPMENT CENTER

SINGLE AUDIT REPORT

MAY 31, 2017

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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
Regina Coeli Child Development Center

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 Regina Coeli Child Development Center (the Center) (a nonprofit organization), which comprise the statement of financial position as of May 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Regina Coeli Child Development Center'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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

Purpose of this Report

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

Postlethwaite & Netterville

Metairie, Louisiana
November 30, 2017

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

To the Board of Directors
Regina Coeli Child Development Center

Report on Compliance for Each Major Federal Program

We have audited the Regina Coeli Child Development Center's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Regina Coeli Child Development Center's major federal programs for the year ended May 31, 2017. Regina Coeli Child Development Center'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 the Center's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Regina Coeli Child Development Center'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 the major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Major Federal Program

In our opinion, Regina Coeli Child Development Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended May 31, 2017.

Report on Internal Control Over Compliance

Management of Regina Coeli Child Development Center 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 Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Regina Coeli Child Development Center'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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Regina Coeli Child Development Center as of and for the year ended May 31, 2017, and have issued our report thereon dated November 30, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Postlethwaite & Netterville

Metairie, Louisiana
November 30, 2017

REGINA COELI CHILD DEVELOPMENT CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MAY 31, 2017

<u>Federal Grantor/Pass-Through Grantor/ Program Title/Program Description</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Pass-through programs from:			
Louisiana Department of Education			
Child Care Food Program	10.558	N/A	<u>\$ 1,092,126</u>
U.S. Departments of Health and Human Services			
Head Start	93.600	06CH712603	13,766,762
Early Head Start Expansion	93.600	06HP00007701	<u>25,679</u>
Total U.S. Departments of Health and Human Services			<u>13,792,441</u>
Total Federal Grants			<u>\$ 14,884,567</u>

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

REGINA COELI CHILD DEVELOPMENT CENTER
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MAY 31, 2017

1. Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is a summary of the Center's federal award programs presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. There were no federal awards passed through to other agencies during the year.

2. Community Facilities Loans

As of May 31, 2017, Regina Coeli Child Development Center had a loan outstanding to the U.S. Department of Agriculture as follows:

Livingston Center	<u>\$ 381,821</u>
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The above loan is not included in the schedule of expenditures of federal awards because there are no related compliance requirements other than timely payment and the requirement of certain restricted cash as described in Note 5 to the financial statements.

3. Relationship to Financial Statements

Federal awards are included in the Statement of Activities of the Center as grants revenue.

4. De Minimis Cost Rate

During the year ended May 31, 2017, the Center did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

REGINA COELI CHILD DEVELOPMENT CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2017

(A) Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
• Material weakness(es) identified:	<u>None reported</u>
• Significant deficiency(ies) identified that are not considered to be material weaknesses:	<u>None reported</u>
Noncompliance material to the financial statements:	<u>None reported</u>

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	<u>None reported</u>
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings which are required to be reported in accordance with Uniform Guidance?	<u>None reported</u>
Identification of major programs:	
U.S. Department of Health and Human Services Head Start/Early Head Start	93,600
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as a low-risk auditee?	<u>No</u>

REGINA COELI CHILD DEVELOPMENT CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2017

(B) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

None reported.

(C) Findings and Questioned Costs Relating to Federal Awards

None reported.

REGINA COELI CHILD DEVELOPMENT CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 31, 2017

#2016-001 Internal Control over Financial Reporting

Recommendation: The Center should review internal control processes to ensure misstatements are properly identified during the month and year end financial reporting process.

Status: This finding is resolved.



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A Professional Accounting Corporation

The Board of Trustees
Regina Coeli Child Development Center
Robert, Louisiana

In planning and performing our audit of the financial statements of Regina Coeli Child Development Center (the Center) as of and for the year ended May 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, during our audit we became aware of matters that is are an opportunity for strengthening internal controls and operating efficiency. This letter does not affect our report dated November 30, 2017 on the financial statements of the Center.

Our comments are summarized in Appendix A which also contains management's response to the current year comments.

This report is intended solely for the information and use of the Board, management, and others within the Center, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads 'Postlethwaite & Netterville'.

Metairie, Louisiana
November 30, 2017

REGINA COELI CHILD DEVELOPMENT CENTER
MAY 31, 2017
CURRENT YEAR COMMENTS AND MANAGEMENT'S RESPONSE

1) Financial statement reconciliation and year-end close process

During current year audit fieldwork, the audit team was provided with several adjustments to the trial balance. Although the impact to the income statement was not material, final balance sheet reconciliations and the year-end close process were not completed prior to fieldwork. These adjustments primarily impacted the areas of property and equipment and payroll liabilities. If these reconciliations are not performed timely and on a regular basis, this may also lead to inconsistent internal financial reporting during the year. We recommend that management set a schedule to regularly and timely reconcile balance sheet items, especially at year end prior to audit fieldwork.

Management's Response

The adjustments for payroll liabilities and property and equipment given to the audit team were part of an ongoing process to clean up balance sheet accounts. These adjustments made no overall change to the financial statements or any effect on current balance sheet activity. In the future, these items will be addressed before the arrival of the audit team.

2) Debt covenant compliance calculations

Management does not regularly review and calculate ratios related to debt covenant compliance requirements. As a result, management was not aware of non-compliance with a covenant ratio as of May 31, 2017 until calculated by the auditor. A waiver was not able to be obtained from the financial institution prior to financial statement issuance, resulting in the debt balance being presented as a current liability in the fiscal year 2017 financial statements. We recommend that management perform timely calculations of debt covenant ratios.

Management's Response

The ratio in question is included in the note payable due to Chase Bank for the building in Bogalusa. It is called the Fixed Charge Coverage Ratio and is a measure of a firm's ability to meet fixed charge obligations (i.e. debt repayment). This ratio is calculated on an annual basis and is at best an estimate until the financial statements are audited and any adjustments deemed necessary by the auditors to comply with generally accepted accounting principles are entered in the accounting system. We were provided with a ratio calculation by the audit team on November 14th, 2017. As of November 30, 2017 we do not have a local banking officer and the bank has yet to reply to our requests. The financial controller requested a waiver from more than one Chase representative, and originally requested by Financial Controller on October 16, 2017.