

Financial Report

*Advocates for Arts-Based
Education Corporation
d/b/a Lusher Charter School*

June 30, 2018

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d/b/a Lusher Charter School
New Orleans, Louisiana**

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New Orleans, Louisiana**

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School,
New Orleans, Louisiana.

Report on the Financial Statements

We have audited the accompanying financial statements of Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School (a non-profit organization) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the 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 of America. 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 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 Lusher 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 evaluation of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School as of June 30, 2018, and the changes in its net assets and its cash flows for the year 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 supplemental schedule (Schedule 1) is presented for purposes of additional analysis, is required by Louisiana Revised Statute 24:513(a)(3), 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.

Report on Summarized Comparative Information

We have previously audited the Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School's financial statements, and our report dated September 29, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report, dated December 12, 2018 on our consideration of Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreement, 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 the 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 Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School's internal control over financial reporting and compliance.

Bougeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
December 12, 2018.

STATEMENT OF FINANCIAL POSITION

Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School
 New Orleans, Louisiana

June 30, 2018
 (with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 2,683,564	\$ 2,562,263
Grants receivable	373,416	266,878
Prepaid expenses	160,416	298,314
Investments	13,846,861	14,218,093
Other	214,984	250,305
Property and equipment, net	<u>3,467,719</u>	<u>3,385,927</u>
Total assets	<u>\$ 20,746,960</u>	<u>\$ 20,981,780</u>
LIABILITIES		
Accounts payable	\$ 205,716	\$ 292,164
Accrued expenses	<u>1,170,979</u>	<u>1,137,788</u>
Total liabilities	<u>1,376,695</u>	<u>1,429,952</u>
NET ASSETS		
Unrestricted	19,055,313	19,282,050
Temporarily restricted	<u>314,952</u>	<u>269,778</u>
Total net assets	<u>19,370,265</u>	<u>19,551,828</u>
Total liabilities and net assets	<u>\$ 20,746,960</u>	<u>\$ 20,981,780</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School
 New Orleans, Louisiana

For the year ended June 30, 2018
 (with comparative totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Totals</u>	<u>2017 Totals Only</u>
Revenues and Other Support				
Contributions	\$ 20,135	\$ 370,424	\$ 390,559	\$ 96,226
Grants:				
Government	511,888	-	511,888	163,787
State - Minimum Foundation Program	6,520,181	-	6,520,181	6,739,016
Local - Minimum Foundation Program	9,894,275	-	9,894,275	9,577,302
Other	128,392	-	128,392	43,865
Student activity fees	728,359	-	728,359	717,607
Other revenue	957,578	-	957,578	978,743
Investment income	102,072	-	102,072	199,012
Net assets released from restrictions	325,250	(325,250)	-	-
	<u>19,188,130</u>	<u>45,174</u>	<u>19,233,304</u>	<u>18,515,558</u>
Expenses				
Administrative fees	298,206	-	298,206	454,334
Depreciation	193,189	-	193,189	177,120
Employee benefits	3,722,211	-	3,722,211	3,399,533
Food services, net	40,551	-	40,551	55,785
Insurance	195,877	-	195,877	170,280
Other expenses	871,269	-	871,269	783,953
Payroll tax expense	203,060	-	203,060	190,657
Professional services	656,535	-	656,535	771,712
Rent	79,529	-	79,529	174,769
Repairs and maintenance	469,478	-	469,478	470,295
Salaries	11,172,825	-	11,172,825	10,597,963
Supplies:				
School	1,113,905	-	1,113,905	975,191
Other	110,803	-	110,803	63,272
Utilities	287,429	-	287,429	295,467
	<u>19,414,867</u>	<u>-</u>	<u>19,414,867</u>	<u>18,580,331</u>
Increase (decrease) in net assets	(226,737)	45,174	(181,563)	(64,773)
Net Assets				
Beginning of year	<u>19,282,050</u>	<u>269,778</u>	<u>19,551,828</u>	<u>19,616,601</u>
End of year	<u>\$ 19,055,313</u>	<u>\$ 314,952</u>	<u>\$ 19,370,265</u>	<u>\$ 19,551,828</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School
 New Orleans, Louisiana

For the year ended June 30, 2018
 (with comparative totals for 2017)

	2018	2017
Cash Flows From Operating Activities		
Decrease in net assets	\$ (181,563)	\$ (64,773)
Adjustments to reconcile decrease in net assets to cash provided by operating activities:		
Depreciation	193,189	177,120
Interest on investments in certificates of deposit (rolled over)	-	(93,425)
Unrealized loss on investment	132,018	109,268
Realized (gain) loss on investment	34,670	(72,824)
(Increase) decrease in assets:		
Grants receivable	(106,538)	(101,923)
Prepaid expenses	137,898	63,137
Other	35,321	(51,692)
Increase in liabilities:		
Accounts payable and accrued expenses	71,849	41,942
Net cash provided by operating activities	316,844	6,830
Cash Flows From Investing Activities		
Property and equipment purchases	(274,981)	(850,642)
Proceeds from maturities of investments	6,911,294	10,358,879
Purchases of investments	(6,706,750)	(10,082,269)
Net cash used in investing activities	(70,437)	(574,032)
Cash Flows From Financing Activities		
Payment of short term trade accounts payable used to finance property and acquisitions	(125,106)	(232,697)

**Exhibit C
(Continued)**

	<u>2018</u>	<u>2017</u>
Net Increase (Decrease) in Cash and Cash Equivalents	121,301	(799,899)
Cash and Cash Equivalents		
Beginning of year	<u>2,562,263</u>	<u>3,362,162</u>
End of year	<u>\$ 2,683,564</u>	<u>\$ 2,562,263</u>
 Supplemental Disclosures of Noncash Investing and Financing Activities		
 Acquisition of property and equipment through accounts payable	 <u>\$ -</u>	 <u>\$ 125,106</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS**Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School
New Orleans, Louisiana**

June 30, 2018 and 2017

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Organization**

Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School (the "School"), incorporated on August 24, 2005, is an educational institution organized to improve student learning, to increase learning opportunities for all students, to encourage the use of innovative teaching methods, to be more thoroughly accountable for education results, and to create new professional opportunities for teachers and other school employees.

The Orleans Parish School Board (OPSB) approved the granting of a charter to the School effective January 1, 2006 for a period ending on December 31, 2011, to operate a Type 3 Charter School, as defined in LA R.S.17:3973(3)(b). On January 18, 2011, the OPSB voted to renew the charter for a period of ten years.

Effective July 1, 2017, OPSB approved the first amendment to the charter operating agreement granting approval of the School to act as its own local educational authority (LEA) for one or more funding purposes or statutory definition, in accordance with LA R.S. §17:3995 and rules adopted by the Louisiana Board of Elementary and Secondary Education.

b. Basis of Accounting

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America on the accrual basis of accounting. The Financial Accounting Standards Board (FASB) is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. 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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

d. Cash and Cash Equivalents

Cash, which is held in interest bearing accounts, consists of both unrestricted and restricted balances. Unrestricted cash balances represent cash available for general operating purposes. Restricted cash balances consist of amounts credited to the School's bank accounts from donations received from individuals or entities who specified specific use of the contribution.

The School classifies as cash and cash equivalents all highly liquid debt instruments with an initial maturity of three months or less.

e. Grants Receivable

Grants receivable are stated at the amount management expects to collect from outstanding balances. The financial statements do not include an estimate for allowance for doubtful accounts. Management believes that all receivables are collectible.

f. Promises to Give

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of June 30, 2018 and 2017, the School did not have outstanding unconditional promises to give.

g. Investments

Investments in U.S. Government Agency bonds and notes and the mutual fund are stated at fair market value. Investments in certificates of deposit are stated at cost which approximates fair market value.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Property, Equipment, and Depreciation

Additions to physical plant and facilities are capitalized in accordance with the Louisiana Accounting and Uniform Governmental Handbook, which requires the School to capitalize equipment purchases with a cost greater than \$5,000. Depreciation is provided utilizing the straight-line method over estimated useful lives of the assets.

i. Compensated Absences

All employees accrue ten days of leave each year, of which a maximum of ten days may be carried forward to the following fiscal year. The employee may use the leave days carried forward from the prior year, but will receive no additional compensation. Upon termination, the employee will receive payment for a maximum of twenty days at a per diem rate of \$75. Unused leave over ten days at the end of the fiscal year are paid at the per diem rate. The School accrues leave and related payroll liabilities for all employees who have ten or less leave days at the per diem rate.

j. Contributions and Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Revenues from federal and state grants are recorded when the School has a right to reimbursement under the related grant, generally corresponding to the incurring of grant related costs by the School, or when earned under the terms of the grants.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. In-kind Support

The School records the in-kind value of goods and services contributed to support various activities as support and related expenses. In-kind support for the years ended June 30, 2018 and 2017 was deemed insignificant.

l. Financial Statement Presentation

Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets - Support, revenues, and expenses for the general operation of the School.

Temporarily Restricted Net Assets - Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

Permanently Restricted Net Assets - Contributions subject to donor-imposed restrictions and that are to be held in perpetuity by the School. Generally, the donors of these assets permit the School to use all or part of the income derived from the investment of these contributions. As of June 30, 2018 and 2017, the School did not have any permanently restricted net assets.

m. Tax Matters

The School has received a tax-exempt ruling under section 501(c)(3) from the Internal Revenue Service and, accordingly, is not subject to Federal income tax unless the School has unrelated trade or business income.

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statements. These standards require an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. As of June 30, 2018, management of the School believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years ended June 30, 2015 and later remain subject to examination by the taxing authorities.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through December 12, 2018, which is the date the financial statements were available to be issued.

Note 2 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted by donors for specific programs, purposes, or to assist specific departments of the School. These restrictions are considered to expire when payments for restricted purposes are made. None of the temporarily restricted net assets are time-restricted by donors.

Temporarily restricted net assets as of June 30, 2018 and 2017 are available for the following purposes:

	2018	2017
Instructional and other	\$ 314,952	\$ 269,778

Note 3 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2018 and 2017 consists of the following:

	2018	2017
Site improvements	\$ 888,937	\$ 888,937
Building improvements	2,856,239	2,613,409
Equipment	1,901,602	1,869,451
	5,646,778	5,371,797
Less accumulated depreciation	(2,179,059)	(1,985,870)
Totals	\$ 3,467,719	\$ 3,385,927

Depreciation expense for the years ended June 30, 2018 and 2017 totaled \$193,189 and \$177,120, respectively.

Note 4 - LEASES

On May 28, 2014, the School entered into a lease agreement for six modular buildings to be used as classrooms on the Willow Street Campus. The lease term was for 36 months beginning at delivery with rental payments due each month of \$4,850. During 2017, the lease was extended for 24 months through July 2019 with no change in monthly rental payments.

Future minimum lease payments relating to the modular building lease are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 58,200
2020	<u>4,850</u>
Total	<u>\$ 63,050</u>

Rent expense for the years ended June 30, 2018 and 2017 totaled \$79,529 and \$174,769, respectively.

Note 5 - RETIREMENT PLANS

Substantially all employees of the School participate in the Teachers' Retirement System of Louisiana (TRSL). This system is a cost sharing, multiple-employer governmental defined benefit plan qualified under Section 401(a) of the Internal Revenue Code (IRC). The plan provides retirement benefits as well as disability and survivor benefits to eligible participants. The TRSL issues publicly available financial reports that include financial statements and required supplementary information of the TRSL. That report may be obtained by writing the Teachers' Retirement System of Louisiana, P.O. Box 94123, Baton Rouge, LA 70804-9123.

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.

Note 5 - RETIREMENT PLANS (Continued)

Participants are required to contribute to the plan 8% of their annual covered payroll; the School was required to contribute 26.6% and 25.5% respectively, of the annual covered payroll of each participating employee for the years ended June 30, 2018 and 2017. These contribution levels are established by law and set by the Public Retirement Systems Actuarial Committee. For the years ended June 30, 2018 and 2017, School contributions to this plan totaled \$2,713,789 and \$2,489,313, respectively.

The School also sponsors a deferred compensation plan pursuant to Section 403(b) of the IRC for the benefit of its employees. Eligible employees may elect to contribute a portion of their salary to the plan, subject to limits established by the Internal Revenue Service. The plan does not permit employer contributions.

Additionally, the School sponsors a deferred compensation plan under IRC section 457(b) for the benefit of one highly compensated employee who is not eligible to participate in the TRSL plan. The School's contributions to the 457(b) plan totaled \$18,500 and \$18,000 for the years ended June 30, 2018 and 2017, respectively.

Note 6 - GRANTS

The United States Department of Education passed through a grant to Louisiana Department of Education (LDOE), which was awarded to the School as a subrecipient, to increase academic achievement through strategies such as improving teacher and principal quality and increase the number of highly qualified teachers, principals, and assistant principals. The grant funds must be used to assist schools in effectively recruiting and retaining highly qualified teachers, to make available professional development activities that address subject matter knowledge, and other activities. For the years ended June 30, 2018 and 2017, the School recognized revenue under this grant of \$54,612 and \$65,904, respectively.

The United States Department of Education passed through a grant to LDOE, which was awarded to the School as a subrecipient, to assist meeting the costs of providing special education and related services to children with disabilities. The grant funds must be used to provide special education and related services to eligible children. For the years ended June 30, 2018 and 2017, the School recognized revenue under this grant of \$162,022 and \$59,742, respectively.

Note 6 - GRANTS (Continued)

The Louisiana Department of Education passed through a grant to LDOE, which was awarded to the School as a subrecipient, to assist meeting the costs of providing special education and related services to children with disabilities. The grant funds must be used to provide special education and related services to eligible children. For the years ended June 30, 2018 and 2017, the School recognized revenue under this grant of \$41,012 and \$29,141, respectively.

The Louisiana Department of Education passed through a grant to the School which provides financial assistance to local educational agencies (LEAs) and schools with high numbers or high percentages of children from low-income families to help ensure that all children meet challenging state academic standards. For the year ended June 30, 2018, the School recognized revenue under this grant of \$243,036.

The Louisiana Department of Education passed through a grant to LDOE, which was awarded to the School as a subrecipient, to improve student performance by creating a year-long teaching residency to inexperienced educators. For the year June 30, 2017, the School recognized revenue under this grant of \$9,000.

The Louisiana Department of Education passed through other grants to the School which totaled \$11,206 for the year ended June 30, 2018.

OPSB provides funding for the general use of the School which is determined on an annual basis based on the number of pupils enrolled in the School as of October 1st. Revenues received by OPSB from sales tax revenues, ad valorem taxes, and other sources are allocated to each school based on its enrollment. For the years ended June 30, 2018 and 2017, the School recognized revenue under this grant of \$9,894,275 and \$9,577,302, respectively.

The State of Louisiana provides funding for the general use of the School which is determined on an annual basis based on the number of pupils enrolled in the School as of October 1st. This state-funded per pupil allocation is based on the most recently approved minimum foundation program formula resolution. For the years ended June 30, 2018 and 2017, the School recognized revenue under this grant of \$6,520,181 and \$6,739,016, respectively.

The State of Louisiana provides funding to the School for instructional enhancements for students. For the years ended June 30, 2018 and 2017, the School recognized revenue under this grant of \$33,952 and \$27,092, respectively. These amounts are reported in Grants - Other on the Statement of Activities.

Note 7 - INVESTMENTS

Investments as of June 30, 2018 and 2017 are composed of the following:

	2018		
	Cost	Fair Market Value	Excess of Cost Over Market
U.S. Government Agency bonds and notes	\$ 13,718,261	\$ 13,552,618	\$ (165,643)
Mutual fund	294,243	294,243	-
Totals	<u>\$ 14,012,504</u>	<u>\$ 13,846,861</u>	<u>\$ (165,643)</u>
	2017		
	Cost	Fair Market Value	Excess of Cost Over Market
U.S. Government Agency bonds and notes	\$ 10,009,782	\$ 9,976,157	\$ (33,625)
Certificates of deposit	3,975,271	3,975,271	-
Mutual fund	266,665	266,665	-
Totals	<u>\$ 14,251,718</u>	<u>\$ 14,218,093</u>	<u>\$ (33,625)</u>

Note 7 - INVESTMENTS (Continued)

Investment activity for the years ended June 30, 2018 and 2017 is as follows:

	<u>Cost</u>	<u>Market</u>	<u>Excess of Cost Over Market</u>
Balances as of June 30, 2018	<u>\$ 14,012,504</u>	<u>\$ 13,846,861</u>	\$ (165,643)
Balances as of June 30, 2017	<u>\$ 14,251,718</u>	<u>\$ 14,218,093</u>	<u>(33,625)</u>
Increase in unrealized depreciation			(132,018)
Net realized loss			(34,670)
Interest and dividend income			<u>268,760</u>
Net investment income - 2018			<u>\$ 102,072</u>
			<u>Excess of Market Over Cost (Cost) Over Market)</u>
	<u>Cost</u>	<u>Market</u>	
Balances as of June 30, 2017	<u>\$ 14,251,718</u>	<u>\$ 14,218,093</u>	\$ (33,625)
Balances as of June 30, 2016	<u>\$ 14,362,079</u>	<u>\$ 14,437,722</u>	<u>75,643</u>
Increase in unrealized depreciation			(109,268)
Net realized gain			72,824
Interest and dividend income			<u>235,456</u>
Net investment income - 2017			<u>\$ 199,012</u>

Note 8 - FAIR VALUE MEASUREMENTS

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

Note 8 - FAIR VALUE MEASUREMENTS (Continued)

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

- *Certificates of Deposit*: Valued at cost which approximates the market price. These are included in Level 1 of the fair value hierarchy.
- *U.S. Government Agency Bonds and Notes and Mutual Fund*: Valued at the closing price reported on the active market on which the individual securities are traded. These are included in Level 1 of the fair value hierarchy.

The methodologies described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 8 - FAIR VALUE MEASUREMENTS (Continued)

As of June 30, 2018 and 2017, assets measured at fair value on a recurring basis are comprised of and determined as follows:

<u>Description</u>	<u>Fair Value As of June 30, 2018</u>	<u>Based on</u>		
		<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
U.S. Government Agency bonds and notes	\$ 13,552,618	\$ 13,552,618	\$ -	\$ -
Mutual fund	<u>294,243</u>	<u>294,243</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 13,846,861</u>	<u>\$ 13,846,861</u>	<u>\$ -</u>	<u>\$ -</u>

<u>Description</u>	<u>Fair Value As of June 30, 2017</u>	<u>Based on</u>		
		<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Certificates of deposit	\$ 3,975,271	\$ 3,975,271	\$ -	\$ -
U.S. Government Agency bonds and notes	9,976,157	9,976,157		
Mutual fund	<u>266,665</u>	<u>266,665</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 14,218,093</u>	<u>\$ 14,218,093</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2018 and 2017, there were no assets measured at fair value on a non-recurring basis.

Note 9 - SCHOOL OPERATIONS/LEASEHOLD INTEREST

Effective January 1, 2006, the School entered into an agreement with OPSB, which allows the School to use the facilities and its contents located at 7315 Willow Street, 5624 Freret Street, 719 S. Carrollton Avenue (no longer utilized by the School), or any other locations as may be approved by the School and OPSB. The agreement was scheduled to expire on December 31, 2011. In June 2011, this agreement was renewed by OPSB for an additional ten years expiring on June 30, 2021.

The School is responsible for all necessary maintenance to ensure that the facilities comply with all state and local health and safety standards and other applicable laws, regulations, and rules. If capital improvements are made by the School with non-public funds to any site which it operates and the charter contract is revoked or terminated, the School will be reimbursed for the fair market value of such capital improvements. Assets purchased with public funds or obtained from public sources will automatically revert to OPSB at the time this agreement is terminated. The School must maintain records of any assets acquired with private funds that will remain the property of the School.

Use of the property is not recorded as an in-kind contribution from OPSB and related rent expense. The value of the use of the land and building is not readily determinable. The agreement is classified as an exchange transaction because both parties receive significant value from this arrangement. Accordingly, the present value of the benefit to be received in future years has not been recorded.

Note 10 - FUNCTIONAL ALLOCATION OF EXPENSES

Expenses have been reported on the Statements of Activities by natural classification. To present expenses by functional classifications, expenses are charged to program services and supporting services (management and general expense and fundraising expense) based on management's estimate of periodic time and expense evaluations. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

Total expenses for the years ended June 30, 2018 and 2017 are allocated as follows:

	2018	2017
Program services	\$ 18,735,914	\$ 17,750,261
Supporting services:		
Management and general	527,193	719,795
Fundraising	151,760	110,275
Total expenses	\$ 19,414,867	\$ 18,580,331

Note 11 - COMMITMENTS

The School has employment contracts as is standard in the field of education with most of its teachers and which expire June 30, 2019. All contracts provide for a minimum annual salary and other benefits.

During 2017, the School entered into various contracts for consulting and other related services that expire on various dates through June 2020. The total commitment for these contracts as of June 30, 2018 was approximately \$92,000.

Note 12 - RISK MANAGEMENT

The School is exposed to various risks of loss from torts, theft and damage to assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no settled claims or unsettled claims that exceeded this commercial coverage during the years ended June 30, 2018 and 2017.

Note 13 - CONCENTRATIONS OF RISK

The School received a substantial amount of its revenue through grants awarded by the federal, state, and local governments for the years ended June 30, 2018 and 2017 which totaled \$17,054,736 and \$16,523,970, respectively, or 89% of total revenue for each of the years ended June 30, 2018 and 2017.

All of the School's students live in the greater New Orleans area.

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School has a written policy for custodial credit risk. As of June 30, 2018, the School's bank balances, including certificates of deposit, were approximately \$2,937,000. Balances insured by the Federal Deposit Insurance Corporation, which covers up to \$250,000 per financial institution, totaled approximately \$355,000 as of June 30, 2018. The remaining deposits of approximately \$2,582,000 were uninsured and collateralized with an FHLMC letter of credit of \$20,000,000 held by the pledging financial institution's trust department or agent, but not in the School's name.

SUPPLEMENTARY INFORMATION

**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER**

**Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School
New Orleans, Louisiana**

For the year ended June 30, 2018

Agency Head Name: Kathleen Riedlinger, Chief Executive Officer

Purpose

Salary	\$ 240,310
Benefits - insurance	6,252
Benefits - retirement	0 ¹
Benefits - other	84,423 ²
Car allowance	6,000
Vehicle provided by government	0
Per diem	0
Reimbursements	0
Travel	0
Registration fees	385
Conference travel	0
Continuing professional education fees	1,529
Housing	0
Unvouchered expenses	0
Special meals	0
	<hr/>
	<u>\$ 338,899</u>

¹ With regard to retirement, Ms. Riedlinger is a TRSL retire-rehire. Since she has already retired, she will personally see no benefit from the employer contributions the School makes to TRSL on her behalf.

² 457 Plan

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS

**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 Trustees,
Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School,
New Orleans, Louisiana.

We have audited, 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 of America, the financial statements of Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School (a non-profit organization) (the "School") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's financial statements, and have issued our report thereon dated December 12, 2018.

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 School'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 a material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 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.



Certified Public Accountants.

New Orleans, Louisiana,
December 12, 2018.

SCHEDULE OF FINDINGS AND RESPONSES

**Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School
New Orleans, Louisiana**

For the year ended June 30, 2018

Section I - Summary of Auditor's Results

a) Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No

- Significant deficiency(ies) identified that are
not considered to be a material weakness? Yes None reported

- Noncompliance material to financial statements noted? Yes No

b) Federal Awards

The School did not expend more than \$750,000 in federal awards during the year ended June 30, 2018, and therefore, is exempt from 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.

Section II - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No internal control over financial reporting findings were reported during the audit for the year ended June 30, 2018.

**Section II - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements (Continued)**

Compliance and Other Matters

No compliance findings material to the financial statements were reported during the audit for the year ended June 30, 2018.

Section III - Federal Award Findings and Questioned Costs

Internal Control/Compliance

The School did not expend more than \$750,000 in federal awards during the year ended June 30, 2018, and therefore, is exempt from 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.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

**Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School
New Orleans, Louisiana**

For the year ended June 30, 2018

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

There were no findings noted during the audit for the year ended June 30, 2017 related to internal control over financial reporting material to the basic financial statements.

Compliance and Other Matters

There were no findings material to the financial statements noted during the audit for the year ended June 30, 2017 related to compliance and other matters.

Section II - Internal Control and Compliance Material to Federal Awards

The School did not expend more than \$750,000 in federal awards during the year ended June 30, 2017, and therefore, is exempt from 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.

Section III - Management Letter

A management letter was not issued in connection with the audit of the financial statements for the year ended June 30, 2017.

MANAGEMENT'S CORRECTIVE ACTION PLAN

**Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School
New Orleans, Louisiana**

For the year ended June 30, 2018

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

There were no findings noted during the audit for the year ended June 30, 2018 related to internal control over financial reporting material to the basic financial statements.

Compliance and Other Matters

There were no findings material to the financial statements noted during the audit for the year ended June 30, 2018 related to compliance and other matters.

Section II - Internal Control and Compliance Material to Federal Awards

The School did not expend more than \$750,000 in federal awards during the year ended June 30, 2018, and therefore, is exempt from 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.

Section III - Management Letter

A management letter was not issued in connection with the audit of the financial statements for the year ended June 30, 2018.

SCHEDULES REQUIRED BY STATE LAW
(R.S. 24:524 - PERFORMANCE AND STATISTICAL DATA)
(UNAUDITED)

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Trustees,
Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School,
New Orleans, Louisiana.

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

Our procedures and associated findings are as follows:

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

1. We selected a random sample of 25 transactions, reviewed supporting documentation, and observed that the sampled expenditures/revenues are classified correctly and are reported in the property amounts among the following amounts reported on Schedule 1.

No exceptions were noted.

Class Size Characteristics (Schedule 2)

2. We obtained a list of classes by school, school type, and class size as reported on the schedule. We traced a sample of 10 classes to the October 1, 2017 roll books for those classes and observed that the class was properly classified on the schedule.

No exceptions were noted.

Education Levels/Experience of Public School Staff (NO SCHEDULE)

3. We obtained the October 1, 2017 PEP data submitted to the Department of Education, including full-time teachers, principals, and assistant principals by classification, as well as their level of education and experience, and obtained management's representation that the data was complete. We then selected a sample of 25 individuals, traced to each individual's personnel file, and observed that each individual's education level and experience was properly classified on the PEP data.

Of the 25 sampled individuals, in 2 instances the education level was not properly classified on the PEP data. One of these employees holds a Juris Doctor and is classified as having a master's degree. The other employee has a bachelor's degree and is classified as having a master's degree.

No exceptions were noted related to experience levels.

Public School Staff Data: Average Salaries (NO SCHEDULE)

4. We obtained a list of all classroom teachers including base salaries, extra compensation, and ROTC or rehired retiree status, as well as full-time equivalents, and obtained management's representation that the listing was complete. We selected a sample of 25 individuals, traced to each individual's personnel file, and observed that each individual's salary, extra compensation, and full-time equivalents were properly included on the list.

No exceptions were noted.

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

The purpose of this report is solely to describe the scope of testing performed on the performance and statistical data accompanying the annual financial statements of the Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School as required by Louisiana Revised Statute 24:514.1, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
December 12, 2018.

Certain Local Revenue Sources

Local Taxation Revenue:

Constitutional Ad Valorem Taxes	\$ -
Renewable Ad Valorem Tax	-
Debt Service Ad Valorem Tax	-
Up to 1% of Collections by the Sheriff on Taxes Other than School Taxes	-
Sales and Use Taxes	-
	-

Total Local Taxation Revenue	\$ <u>-</u>
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Local Earnings on Investment in Real Property:

Earnings from 16th Section Property	\$ -
Earnings from Other Real Property	-
	-

Total Local Earnings on Investment in Real Property	\$ <u>-</u>
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State Revenue in Lieu of Taxes:

Revenue Sharing - Constitutional Tax	\$ -
Revenue Sharing - Other Taxes	-
Revenue Sharing - Excess Portion	-
Other Revenue in Lieu of Taxes	-
	-

Total State Revenue in Lieu of Taxes	\$ <u>-</u>
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Nonpublic Textbook Revenue	\$ <u>-</u>
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Nonpublic Transportation Revenue	\$ <u>-</u>
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CLASS SIZE CHARACTERISTICS**Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School**

New Orleans, Louisiana

As of October 1, 2017
(Unaudited)

School Type	Class Size Range							
	1-20		21-26		27-33		34+	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Elementary	-	-	-	-	-	-	-	-
Elementary Activity Classes	-	-	-	-	-	-	-	-
Middle/Jr. High	-	-	-	-	-	-	-	-
Middle/Jr. High Activity Classes	-	-	-	-	-	-	-	-
High	-	-	-	-	-	-	-	-
High Activity Classes	-	-	-	-	-	-	-	-
Combination	217	78	275	72	31	62	1	100
Combination Activity Classes	61	22	107	28	19	38	-	-
Totals	<u>278</u>	<u>100</u>	<u>382</u>	<u>100</u>	<u>50</u>	<u>100</u>	<u>1</u>	<u>100</u>

STATEWIDE AGREED-UPON PROCEDURES (R.S. 24:513)

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Trustees,
Advocates for Arts-Based Education Corporation
d/b/a Lusher Charter School,
New Orleans, Louisiana.

We have performed the procedures included in the enumerated below, which were agreed to by the management of Advocates for Arts-Based Education Corporation d/b/a Lusher Charter School (the "School") and the Legislative Auditor, State of Louisiana, solely to assist the specified users of the report in evaluating management's assertions about the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures (SAUPs) accompanying the annual financial statements of the School for the year ended June 30, 2018 and to determine whether the C/C areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures are free of obvious errors and omissions. Management of the School is responsible for its C/C areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures. The sufficiency of these procedures is solely the responsibility of the specified parties in 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.

The procedures that were performed and our findings are as follows:

Written Policies and Procedures

Testing is not applicable as there were no findings in the SAUPs for the year ended June 30, 2017.

Board or Finance Committee

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

Board or Finance Committee (Continued)

We reviewed the School's by laws and determined that the only required meeting of the managing board is an annual meeting at the beginning of the school year. The board fulfilled this requirement in August 2017.

- b) For those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.**

We did not observe any reference to or inclusion of financial activity relating to public funds in the board minutes.

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

This step is not applicable to the School.

Bank Reconciliations

Testing is not applicable as there were no findings in the SAUPs for the year ended June 30, 2017.

Collections

Testing is not applicable as there were no findings in the SAUPs for the year ended June 30, 2017.

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

Testing is not applicable as there were no findings in the SAUPs for the year ended June 30, 2017.

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

Testing is not applicable as there were no findings in the SAUPs for the year ended June 30, 2017.

Travel and Travel-Related Expense Reimbursement

Testing is not applicable as there were no findings in the SAUPs for the year ended June 30, 2017.

Contracts

Testing is not applicable as there were no findings in the SAUPs for the year ended June 30, 2017.

Payroll and Personnel

Testing is not applicable as there were no findings in the SAUPs for the year ended June 30, 2017.

Other

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

Management represented that there were no misappropriations of public funds. In addition, management signed a management representation letter stating there were no misappropriations of public funds.

- 3. Observe and report whether the School has posted on its premises and website, the notice required by R.S. 24:523.1. This notice concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.**

We verified that the School has posted both on its premises and its website the notice required by R.S. 24:523.1.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the Association of International Certified Professional Accountants and applicable standards of Government Auditing Standards. We are 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 management's assertions. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the School, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and it not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bougeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
December 12, 2018.