

Shreveport Charter Foundation, Inc.

FINANCIAL STATEMENTS

June 30, 2019 and 2018



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Shreveport Charter Foundation, Inc. Table of Contents

REPORT

Independent Auditors' Report	1
------------------------------	---

FINANCIAL STATEMENTS

Statements of Financial Position June 30, 2019 and 2018	4
--	---

Statement of Activities For the year ended June 30, 2019	5
---	---

Statement of Activities For the year ended June 30, 2018	6
---	---

Statement of Functional Expenses For the year ended June 30, 2019	7
--	---

Statement of Functional Expenses For the year ended June 30, 2018	8
--	---

Statements of Cash Flows For the years ended June 30, 2019 and 2018	9
--	---

Notes to the Financial Statements	10
-----------------------------------	----

Supplemental Information

Schedule of Expenditures of Federal Awards For the year ended June 30, 2019	22
--	----

Notes to the Schedule of Expenditures of Federal Awards For the year ended June 30, 2019	23
---	----

Schedule of Compensation Paid to the Board of Trustees For the year ended June 30, 2019	24
--	----

Schedule of Compensation, Benefits and Other Payments to Agency Head For the year ended June 30, 2019	25
--	----

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 <i>Government Auditing Standards</i>	26
---	----

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	28
---	----



Shreveport Charter Foundation, Inc.
Table of Contents

Schedule of Findings and Questioned Costs	31
Corrective Action Plan	34
Summary Schedule of Prior Audit Findings	35



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Shreveport Charter Foundation, Inc.
Shreveport, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Shreveport Charter Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 Shreveport Charter Foundation, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As described in Note 1 to the financial statements, Shreveport Charter Foundation, Inc. adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements for Not-for-Profit Entities* which requires changes to be made in how net assets are classified based on Donor restrictions and has added multiple new disclosures. Our opinion is not modified with respect to this matter.

Other Matters

Supplemental and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Compensation Paid to the Board of Trustees and Schedule of Compensation, Benefits and Other Payments to Agency Head are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019, on our consideration of Shreveport Charter Foundation, Inc.'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 the effectiveness of Shreveport Charter Foundation Inc.'s 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 Shreveport Charter Foundation, Inc.'s internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana

November 18, 2019

Shreveport Charter Foundation, Inc.
Statements of Financial Position

<i>June 30,</i>	2019	2018
Assets		
Current assets		
Cash	\$ 500,728	\$ 2,255,217
Grant and other receivables	101,592	82,742
Due from management company	38,187	-
Prepaid expenses and other current assets	4,691	75,847
Total current assets	645,198	2,413,806
Property and equipment		
Real estate and buildings held under capital leases	28,813,183	28,813,183
Furniture, fixtures and equipment held under capital leases	1,810,821	1,767,626
Less: accumulated amortization	(6,675,143)	(5,256,800)
Furniture, fixtures and equipment	1,116,610	910,550
Less: accumulated depreciation	(720,298)	(545,367)
Net property and equipment	24,345,173	25,689,192
Other assets		
Deposits	36,033	36,033
Restricted cash for purchase of fixed assets	-	43,195
Total other assets	36,033	79,228
Total assets	\$ 25,026,404	\$ 28,182,226
Liabilities and Net Assets (Deficit)		
Current liabilities		
Accounts payable	\$ 53,614	\$ 201,726
Capital lease payable, current	314,682	439,712
Accrued expenses	559,836	1,019,380
Due to other government agencies	17,012	-
Deferred revenue	-	2,176
Total current liabilities	945,144	1,662,994
Long-term liabilities		
Interest payable	1,308,007	1,267,816
Capital lease payable, long-term	28,962,363	29,277,045
Total long-term liabilities	30,270,370	30,544,861
Total liabilities	31,215,514	32,207,855
Net assets (deficit)		
Without donor restrictions	(6,189,110)	(4,025,629)
With donor restrictions	-	-
Total net assets (deficit)	(6,189,110)	(4,025,629)
Total liabilities and net assets (deficit)	\$ 25,026,404	\$ 28,182,226

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

Shreveport Charter Foundation, Inc.
Statement of Activities

<i>For the year ended June 30, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Minimum Foundation Program	\$ 10,201,082	\$ -	\$ 10,201,082
Federal grants	807,671	-	807,671
Other income	1,134,365	-	1,134,365
Debt forgiveness	1,667,365	-	1,667,365
Total support and revenue	13,810,483	-	13,810,483
Expenses			
Program services			
Regular education	8,448,624	-	8,448,624
Special education	1,072,840	-	1,072,840
Other education	79,596	-	79,596
Supporting services			
Management and general	6,372,904	-	6,372,904
Total expenses	15,973,964	-	15,973,964
Change in net assets	(2,163,481)	-	(2,163,481)
Net assets (deficit), beginning of period	(4,025,629)	-	(4,025,629)
Net assets (deficit), end of period	\$ (6,189,110)	\$ -	\$ (6,189,110)

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

Shreveport Charter Foundation, Inc.
Statement of Activities

<i>For the year ended June 30, 2018</i>	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Minimum Foundation Program	\$ 12,658,626	\$ -	\$ 12,658,626
Federal grants	629,592	-	629,592
Other income	260,062	-	260,062
Debt Forgiveness	2,017,074	-	2,017,074
Total support and revenue	15,565,354	-	15,565,354
Expenses			
Program services			
Regular education	9,363,757	-	9,363,757
Special education	1,038,387	-	1,038,387
Other education	106,802	-	106,802
Supporting services			
Management and general	6,268,727	-	6,268,727
Total expenses	16,777,673	-	16,777,673
Change in net assets	(1,212,319)	-	(1,212,319)
Net assets (deficit), beginning of period	(2,813,310)	-	(2,813,310)
Net assets (deficit), end of period	\$ (4,025,629)	\$ -	\$ (4,025,629)

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

Shreveport Charter Foundation, Inc.
Statement of Functional Expenses

For the Year Ended June 30,

2019

	Program Services				Supporting Services	
	Regular Education	Special Education	Other Education	Total Program Services	Management and General	Total Expenses
Salaries	\$ 3,949,831	\$ 656,606	\$ 56,393	\$ 4,662,830	\$ 523,051	\$ 5,185,881
Benefits	647,709	92,627	7,527	747,863	75,247	823,110
Professional services	4,957	431	-	5,388	88,714	94,102
Contracted and vendor services	1,104	96	-	1,200	-	1,200
Professional development	20,466	1,780	-	22,246	-	22,246
Supplies and materials	260,625	23,024	-	283,649	17,338	300,987
Utilities	444,821	38,680	-	483,501	25,447	508,948
Repairs and maintenance	592,213	51,497	-	643,710	33,879	677,589
Insurance	125,390	10,903	-	136,293	7,238	143,531
Interest	-	-	-	-	3,091,880	3,091,880
Depreciation and amortization	1,392,521	121,089	-	1,513,610	79,664	1,593,274
School board fees	187,700	16,322	-	204,022	-	204,022
Travel	38,212	3,323	-	41,535	12,059	53,594
Marketing and recruitment	91,756	7,979	-	99,735	5,165	104,900
Food service	430,163	37,406	712	468,281	2,681	470,962
Technology	76,553	6,657	-	83,210	23,490	106,700
Office expense	42,263	3,675	-	45,938	32,032	77,970
Student services	8,566	745	14,964	24,275	-	24,275
Management fees	-	-	-	-	1,667,365	1,667,365
Other	133,774	-	-	133,774	687,654	821,428
Total Functional Expenses	\$ 8,448,624	\$ 1,072,840	\$ 79,596	\$ 9,601,060	\$ 6,372,904	\$ 15,973,964

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

Shreveport Charter Foundation, Inc.
Statement of Functional Expenses

For the Year Ended June 30,

2018

	Program Services				Supporting Services		Total Expenses
	Regular Education	Special Education	Other Education	Total Program Services	Management and General		
Salaries	\$ 4,497,331	\$ 642,026	\$ 64,364	\$ 5,203,721	\$ 441,840	\$ 5,645,561	
Benefits	698,624	86,745	9,946	795,315	63,711	859,026	
Professional services	1,863	140	-	2,003	87,686	89,689	
Contracted and vendor services	-	6,343	-	6,343	-	6,343	
Professional development	12,870	969	-	13,839	-	13,839	
Supplies and materials	508,624	41,783	-	550,407	18,876	569,283	
Utilities	377,538	28,417	-	405,955	24,251	430,206	
Repairs and maintenance	583,035	43,884	-	626,919	32,996	659,915	
Insurance	81,237	6,115	-	87,352	4,745	92,097	
Interest	-	-	-	-	3,119,399	3,119,399	
Depreciation and amortization	1,456,377	109,620	-	1,565,997	82,421	1,648,418	
School board fees	235,450	17,722	-	253,172	-	253,172	
Travel	64,121	4,826	-	68,947	17,760	86,707	
Marketing and recruitment	98,066	7,381	-	105,447	5,485	110,932	
Food service	385,695	29,031	17,211	431,937	2,585	434,522	
Technology	87,139	6,559	-	93,698	27,203	120,901	
Office expense	44,828	3,374	-	48,202	37,063	85,265	
Student services	45,754	3,444	15,281	64,479	-	64,479	
Management fees	-	-	-	-	2,017,074	2,017,074	
Other	185,205	8	-	185,213	285,632	470,845	
Total Functional Expenses	\$ 9,363,757	\$ 1,038,387	\$ 106,802	\$ 10,508,946	\$ 6,268,727	\$ 16,777,673	

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

Shreveport Charter Foundation, Inc.
Statements of Cash Flows

<i>For the years ended June 30,</i>	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (2,163,481)	\$ (1,212,319)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	1,593,274	1,648,418
(Increase) decrease in		
Grant and other receivables	(18,850)	18,761
Due from management company	(38,187)	-
Prepaid expenses and other current assets	71,156	(71,290)
Deposits	-	4,983
Increase (decrease) in		
Accounts payable	(148,112)	118,064
Accrued expenses	(459,544)	238,523
Due to other government entities	17,012	-
Deferred revenue	(2,176)	2,176
Interest payable	40,191	165,009
Net cash (used in) provided by operating activities	(1,108,717)	912,325
Cash flows from investing activities		
Purchase of property and equipment	(249,255)	(293,001)
Cash restricted for purchase of fixed assets	43,195	170,560
Net cash used in investing activities	(206,060)	(122,441)
Cash flows from financing activities		
Payments on capital leases	(439,712)	(344,177)
Net cash used in financing activities	(439,712)	(344,177)
Net (decrease) increase in cash	(1,754,489)	445,707
Cash - beginning of period	2,255,217	1,809,510
Cash - end of period	\$ 500,728	\$ 2,255,217

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest	\$ 40,191	\$ 2,994,949
Noncash operating and investing activities		
Increase in property held under capital leases	\$ 43,195	\$ -

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

Shreveport Charter Foundation, Inc. Notes to the Financial Statements

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Shreveport Charter Foundation, Inc. (the Foundation), a Louisiana nonprofit corporation, was formed on February 27, 2012, exclusively for educational purposes. The Foundation has entered into a Type 1 charter school contract with Caddo Parish School Board (CPSB) to operate the Magnolia School of Excellence (the Charter School) for students in Caddo Parish, Louisiana. The lower campus includes grades kindergarten through fifth grade. The upper campus includes grades six through eleven. The Charter School will expand to serve students from kindergarten to twelfth grade in the 2019 – 2020 school year. The original charter agreement with CPSB dated February 5, 2013 was for an initial term of five years. During the prior year the charter agreement was renewed for an additional three years.

The Foundation is an independent nonprofit entity, separate and distinct from the Caddo Parish School Board, the primary government and reporting entity. However, the Foundation is a component unit of CPSB and the Foundation's financial statements are included in the CPSB's basic financial statements as a component unit.

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

Financial Statement Presentation

The Foundation has adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 "Not-for-Profit Entities." Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities based on the absence or existence of donor-imposed restrictions. During 2019, the Foundation adopted the provisions of Accounting Standards Update ("ASU") 2016-14: Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities, which improves the current net asset classification and the related information presented in the financial statements and notes about the Foundation's liquidity, financial performance, and cash flows. Accordingly, net assets of the Foundation and changes therein, may be classified and reported as follows, as financial circumstances require:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Support restricted by the donor is reported as a transfer from net assets with donor restrictions when the restriction expires or is met in the reporting period. Some unrestricted net assets may be designated by the governing board of the Foundation for specific purposes.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.



Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

**NOTE 1: NATURE OF ORGANIZATION AND 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 Foundation are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. All significant receivables, payables and other liabilities are reflected.

Cash and Cash Equivalents

Cash consists of demand deposit balances and represents cash available for general operating purposes. The Foundation classifies all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents. The Foundation did not have any cash equivalents at June 30, 2019 and 2018.

Grant and Other Receivables

The receivables are stated at the amount management expects to collect. The financial statements do not include an estimate for an allowance for doubtful accounts, as management believes all remaining receivables are fully collectible.

The Foundation received various federal grants to fund programs and operations. The grants are on a reimbursement basis and grants receivable at year-end are stated at unpaid balances for expenditures incurred prior to year-end.

Revenue Recognition

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenues from federal grants are recorded when the Foundation has a right to reimbursement under the grant, generally corresponding to the incurring of grant related costs by the Foundation, or when earned under the terms of the grants. An accrual is made when eligible expenses are incurred.

The Foundation's primary source of funding is through the Minimum Foundation Program (MFP), passed through from CPSB and funded by the State Public School Fund. CPSB withholds 2% of the gross funding for the fiscal year.



Shreveport Charter Foundation, Inc. Notes to the Financial Statements

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Acquisitions of property and equipment and betterments of \$750 or more that naturally add to the value of related assets or materially extend the useful lives of assets are capitalized at cost. Contributed property and equipment is recorded at fair value at the date of donation. Normal building maintenance and minor equipment purchases are included as expenses of the Foundation.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets (three to thirty years).

Assets purchased with public funds will revert to the Louisiana Board of Elementary and Secondary Education at the time the Charter agreement is terminated.

Depreciation expense, which includes amortization expense of capital lease assets, incurred for the years ended June 30, 2019 and 2018, was \$1,593,274 and \$1,648,418, respectively.

Leasing Arrangements and Amortization

The Foundation leases the school buildings and substantially all of the furniture, fixtures and equipment utilized by the Charter School under capital leases as described in Note 5. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized (or depreciated) over the lower of the related lease terms or the estimated productive lives. Amortization (or depreciation) of assets under capital leases is included in depreciation and amortization expense.

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is also exempt from Louisiana state income taxes. However income, if any, from certain activities not directly related to the Foundation's tax exempt purpose is subject to taxation as unrelated business income.

The Foundation follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC, which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Foundation's income tax returns. Management evaluated the Foundation's tax positions and concluded that they had taken no uncertain tax positions that required adjustments to the financial statements to comply with the provisions of this guidance.

Shreveport Charter Foundation, Inc. Notes to the Financial Statements

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Employees may accrue between 8 and 26 days per year of paid time off depending on length of service and classification. A maximum of 5 days (40 hours) of paid time off can be carried over from year to year. Earned but unused paid time off is eligible for payment upon separation from service up to a maximum of 40 hours. The liability for compensated absences includes salary-related benefits, where applicable.

Use of Estimates

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

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense for the years ended June 30, 2019 and 2018 was approximately \$103,300 and \$109,700, respectively.

New Accounting Standard

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities," to address classification of net assets reported on the financial statements and disclosures related to liquidity and availability of resources. ASU 2016-14 reduces the required number of classes of net assets from three to two: *net assets with donor restrictions and net assets without donor restrictions*. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. These net asset classes are reflected in the Statements of Financial Position and Statements of Activities. ASU 2016-14 requires expenses to be reported by nature in addition to function and include analysis of expenses by both nature and function. Statements of Functional Expenses are included in the financial statements. The methods used by not-for-profit entities to allocate costs among program and support functions will also need to be disclosed. Allocation methods of functional expenses are included in Note 1. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the statement of financial position date. Liquidity and availability of funds is included in Note 11. ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method to present operating cash flows. This standard had no impact on cash flows provided by or used in operations.

Shreveport Charter Foundation, Inc. Notes to the Financial Statements

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Foundation has retrospectively applied this standard to the financial statements as of and for the year ended June 30, 2018. A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018, follows:

As originally stated:

Unrestricted net assets (deficit), beginning of period	\$ (2,813,310)
Temporarily restricted net assets (deficit), beginning of period	\$ -
Permanently restricted net assets (deficit), beginning of period	\$ -
Unrestricted net assets (deficit), end of period	\$ (4,025,629)
Temporarily restricted net assets (deficit), end of period	\$ -
Permanently restricted net assets (deficit), end of period	\$ -

As restated:

Net assets (deficit) without donor restrictions, beginning of period	\$ (2,813,310)
Net assets (deficit) with donor restrictions, beginning of period	\$ -
Net assets (deficit) without donor restrictions, end of period	\$ (4,025,629)
Net assets (deficit) with donor restrictions, end of period	\$ -

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU and its amendments will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. For nonpublic entities, these amendments are effective for annual reporting periods beginning after December 15, 2018. Early adoption with certain restrictions is permitted for nonpublic entities. The Foundation is currently evaluating the impact of the guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU and its amendments supersedes the leasing guidance in Topic 840, entitled *Leases*. Under the guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. For nonpublic entities, the standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact of the guidance on its financial statements.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

**NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Functional Expense Allocation

The majority of expenses reported in the financial statements can be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function, including depreciation and amortization, leadership salaries and the technology department, have been allocated among program and supporting services classifications based on estimates of time and effort and square footage.

Reclassifications

Certain reclassifications have been made to the prior year amounts to conform with the current presentation.

NOTE 2: CONCENTRATIONS AND CREDIT RISK

The Foundation received approximately 84% and 93% of its total revenues from the State of Louisiana, through its charter school contract with CPSB for the years ended June 30, 2019 and 2018 respectively.

Demand deposit balances, as reflected in the bank's records, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. At June 30, 2019 and 2018, the Foundation had approximately \$247,000 and \$2,045,000, respectively, in uninsured deposits. Management believes the risk associated with these excess deposits is minimal.

NOTE 3: GRANT AND OTHER RECEIVABLES

At June 30, 2019 and 2018, grant and other receivables totaled \$101,592 and \$82,742, respectively, and are considered fully collectible.

NOTE 4: ACCRUED EXPENSES

<i>June 30,</i>	2019	2018
Payroll and benefits	\$ 535,493	\$ 986,510
Other	24,343	32,870
	\$ 559,836	\$ 1,019,380

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

NOTE 5: CAPITAL LEASES

Following is a summary of assets held under capital leases:

<i>June 30,</i>	2019	2018
Real estate and buildings	\$ 28,813,183	\$ 28,813,183
Furniture, fixtures and equipment	1,810,821	1,767,626
Property held under capital leases	30,624,004	30,580,809
Less: accumulated amortization	(6,675,143)	(5,256,800)
	\$ 23,948,861	\$ 25,324,009

<i>June 30,</i>	2019	2018
Restricted cash for purchase of fixed assets	\$ -	\$ 43,195

During negotiation of the capital lease between Red Apple at Magnolia Upper, LLC (“Red Apple”), a related party of the management company Charter Schools USA, and the Foundation, Red Apple agreed to lease furniture, fixtures and equipment in the amount of \$1,030,000 to the Foundation. Red Apple fulfilled its commitment under the lease by depositing cash in the amount of \$1,030,000 into the Foundation’s bank account. At June 30, 2018, furniture, fixtures and equipment in the amount of \$986,805 had been purchased and placed in service by the Foundation. The remaining cash at June 30, 2018, in the amount of \$43,195, was restricted for the purchase of furniture, fixtures and equipment under the capital lease agreement with Red Apple. Cash restricted for the purchase of fixed assets was reported with other long term assets on the accompanying financial statements. During the year ended June 30, 2019 furniture, fixtures and equipment totaling \$43,195 were purchased and placed in service and the cash restriction was removed.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

NOTE 5: CAPITAL LEASES (CONTINUED)

The Foundation had the following capital leases payable:

<i>June 30,</i>	2019	2018
Capital lease payable to Red Apple at Magnolia, LLC for real property in the original amount of \$12,278,567, with a commencement date of July 22, 2013, with an effective interest rate of 10.147%, payable in monthly payments ranging from \$65,386 to \$148,788, including interest, maturing on June 1, 2033.	\$ 11,827,799	\$ 12,063,970
Capital lease payable to Red Apple at Magnolia, LLC for equipment in the original amount of \$780,821, dated June 30, 2013, with an effective interest rate of 5.845%, payable in monthly payments of \$14,886 from July 2014 to June 2019, including interest, maturing June 1, 2019.	-	173,107
Capital lease payable to Red Apple at Magnolia Upper, LLC for real property in the original amount of \$16,534,616, with a commencement date of August 1, 2016, with an effective interest rate of 10.094%, payable in monthly payments ranging from \$32,635 to \$188,589, including interest, maturing on July 31, 2046.	16,501,981	16,501,981
Capital lease payable to Red Apple at Magnolia Upper, LLC for equipment in the amount of \$1,030,000, dated August 1, 2016, with an effective interest rate of 8.78%, payable in monthly payments ranging from \$8,808 to \$8,993, including interest, maturing July 31, 2036.	947,265	977,699
Total capital leases payable	29,277,045	29,716,757
Less current maturities	(314,682)	(439,712)
Long-term capital leases payable	\$ 28,962,363	\$ 29,277,045

Scheduled annual lease payments for the fiscal years ending June 30, are:

2020	\$ 3,350,254
2021	3,392,467
2022	3,435,364
2023	3,483,084
2024	3,526,565
Thereafter	62,075,851
Total minimum lease payments	79,263,585
Less interest	(49,986,540)
Net minimum lease payments	\$ 29,277,045

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

NOTE 5: CAPITAL LEASES (CONTINUED)

The Foundation's capital leases with Red Apple at Magnolia Upper, LLC dated August 1, 2016 include restrictive covenants that require, among other items, the Foundation to have an annual rent coverage ratio of at least 1.00 to 1.00 each quarter and unrestricted immediately available funds on hand each June 30 in an amount at least equal to the Days Cash on Hand Requirement for the applicable period.

The Foundation is required to calculate the annual rent coverage ratio quarterly based on a rolling twelve month period. Annual rent coverage ratio is determined by dividing income available for annual rent by maximum annual rent. Income available for annual rent is the excess of charter revenues over operating expenses as determined from audited financial statements provided that gains and losses on investments will not be recognized in the calculation of income available for annual rent. Maximum annual rent means the highest rent due under the lease for any current or succeeding fiscal year or other specified period. At June 30, 2019, the Foundation did not meet the annual rent coverage ratio covenant. Under the terms of the capital lease, the failure to meet the annual rent coverage ratio may be considered an event of default. The investors waived the breach of the annual rent coverage ratio covenant for the fiscal year ending June 30, 2019. The calculation as of June 30, 2019 is included below.

Annual Rent Coverage Ratio Covenant
As of June 30, 2019

Charter revenues		\$	12,146,007
Less: Internal Funds Revenue			(144,030)
Operating Expenses			(14,306,599)
Add: Internal Funds Expense			136,912
Change in Unrestricted Net Assets			<u>(2,167,710)</u>
Plus:			
Interest			3,091,881
Depreciation and Amortization			<u>1,593,274</u>
Income Available for Annual Rent		\$	<u><u>2,517,445</u></u>
Maximum Annual Rent		\$	3,661,989
Annual Rent Coverage Ratio			0.69
Required Rent Coverage Ratio			1.00

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

NOTE 5: CAPITAL LEASES (CONTINUED)

The Days Cash on Hand Requirement for the calculation date of June 30, 2019 through and including December 31, 2019 is an amount equal to at least forty-five (45) days of Average Daily Expenses. Average Daily Expenses include operating expenses, long term debt service requirements, and payments of base rent under the lease and exclude depreciation and other non-cash items and deferred management fees for the twelve month period. At June 30, 2019 the Foundation did not meet the Days Cash on Hand Requirement. Under the terms of the capital lease, the failure to maintain unrestricted immediately available funds in an amount equal to at least forty-five (45) days of average daily expenses may constitute and event of default. The investors waived the breach of the liquidity covenant for the fiscal year ending June 30, 2019. The calculation as of June 30, 2019 is included below.

Liquidity Covenant - Computation of Days Cash on Hand
As of June 30, 2019

Annual Total Expenses	\$ 14,306,599
Less: Internal Funds Expense	(136,912)
Less: Depreciation	(1,593,274)
Add: Principal Payments	439,712
Adjusted Annual Total Expenses	13,016,125
Average Daily Expenses (based on 360 day year)	36,156
Days of Cash Required	45
Daily Cash Required	1,627,020
Cash Available as of June 30, 2019	500,728
Less: Internal Fund Cash	(36,345)
Adjusted Cash Available as of June 30, 2019	\$ 464,383
Days of Cash on Hand	13

Property with a net book value of \$23,948,861 as of June 30, 2019 held under capital leases with Red Apple at Magnolia, LLC and Red Apple at Magnolia Upper, LLC has been pledged as security on Red Apple at Magnolia Upper, LLC (Landlord) financing.

NOTE 6: RISK MANAGEMENT

The Foundation is exposed to various risks of loss from torts; thefts of, damage to, and destruction of 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. In the opinion of management, insurance coverage is adequate to cover any material anticipated losses.



Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

NOTE 6: RISK MANAGEMENT (CONTINUED)

There were no settled claims that exceeded this commercial coverage during the years ended June 30, 2019 and 2018.

NOTE 7: COMMITMENTS

Management agreement

The Foundation entered into a management agreement on February 5, 2013, with Charter Schools USA at Shreveport, LLC (CSUSA), a Florida limited liability company to develop, manage, staff and operate the Charter School. The term of the agreement was for an initial five year term consistent with the term of the charter contract with CPSB. The agreement was renewed for an additional three year term consistent with the term of the charter contract renewal. The agreement states that CSUSA shall be entitled to cost reimbursements and management fees for its services. The cost reimbursements and management fees are not to exceed 15% of revenues which shall be set forth within the approved annual budget or any amendments thereto.

For the years ended June 30, 2019 and 2018, cost reimbursements and management fee expense was \$0. The Foundation had an amount due from CSUSA for \$38,187 at June 30, 2019. This amount is shown in the financial statements as due from management company.

NOTE 8: EMPLOYEE BENEFIT PLAN

The Foundation offered all of its full-time employees, who had attained 21 years of age, a retirement plan under Internal Revenue Code Section 401(k). Employees are allowed to contribute up to 100% of their salary, subject to certain limitations. Charter Schools USA will match 25% up to the first 6% that the employee elects. For the years ended June 30, 2019 and 2019, the Foundation's contributions to the plan totaled \$16,832 and \$17,402, respectively.

NOTE 9: CONTINGENCIES

The Foundation, as charter operator, is subject to Annual Academic Audits by Caddo Parish School Board. Failure to follow through with the recommendations and directives of the yearly audit will be grounds for terminations and/or non-renewal of the charter contract.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

NOTE 10: NET ASSETS (DEFICIT)

The Foundation had a decrease in net assets of approximately \$2.2 million for the year ended June 30, 2019 as well as a deficit of approximately \$6 million. The main driver of the overall deficit of the Foundation is the accumulated depreciation of the two facilities recorded as assets held under capital leases in the financial statements, which totals approximately \$5 million. The Foundation has the support of Charter Schools USA as their management company. Management fees for the current fiscal year were waived by the management company. This support will continue until the school is operating independently and is financially stable.

NOTE 11: LIQUIDITY OF FINANCIAL ASSETS

The financial assets available to meet cash needs for general expenditures within one year as of June 30, 2019 are as follows:

June 30,	2019	2018
Cash	\$ 500,728	\$ 2,255,217
Grant and other receivables	101,592	82,742
Due from management company	38,187	-
Total financial assets available to meet general expenditures within one year	<u>\$ 640,507</u>	<u>\$ 2,337,959</u>

Revenue from the Minimum Foundation Program and sources other than federal grants and internal funds is not restricted for specific purposes and is available for general expenditure. As part of the Foundation's liquidity management, it maintains its funds in cash operating accounts in order to meet the needs of general expenditures, liabilities or other obligations as they come due.

NOTE 12: SUBSEQUENT EVENTS

As discussed in Note 5 the Foundation is required to have an annual rent coverage ratio of at least 1.00 to 1.00 each quarter. For the quarter ended September 30, 2019, the annual rent coverage ratio was not met. A waiver was received from the Trustee.

Management has evaluated subsequent events through November 18, 2019, which is the date the financial statements were available to be issued.

Supplemental Information

Shreveport Charter Foundation, Inc.
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>United States Department of Agriculture</u>				
Passed through Louisiana Department of Education				
Child Nutrition Cluster				
National School Lunch Program	10.555	N/A	\$ -	\$ 351,714
School Breakfast Program	10.553	N/A	-	83,587
Total Child Nutrition Cluster			-	435,301
<hr/>				
Total United States Department of Agriculture			-	435,301
<hr/>				
<u>United States Department of Education</u>				
Passed through Caddo Parish School Board				
Title I Grants to Local Educational Agencies	84.010	N/A	-	372,370
<hr/>				
Total United States Department of Education			-	372,370
<hr/>				
Total expenditures of federal awards			\$ -	\$ 807,671

See independent auditors' report and the notes to the Schedule of Expenditures of Federal Awards.



Shreveport Charter Foundation, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Shreveport Charter Foundation, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2: RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the federal financial reports except for changes made to reflect amounts in accordance with accounting principles generally accepted in the United States of America.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures are recognized following the cost principles contained in the Uniform Guidance. The Foundation has not elected to use the 10% de minimis indirect cost rate allowed by the Uniform Guidance.

NOTE 4: SUBRECIPIENTS

During the year ended June 30, 2019, Shreveport Charter Foundation, Inc. had no subrecipients.

NOTE 5: LOANS

During the year ended June 30, 2019, Shreveport Charter Foundation, Inc. did not expend federal awards related to loans or loan guarantees.

NOTE 6: NONCASH AWARDS

During the year ended June 30, 2019, Shreveport Charter Foundation, Inc. did not receive any noncash assistance.



Shreveport Charter Foundation, Inc.
Schedule of Compensation Paid to the Board of Trustees
For the year ended June 30, 2019

There was no compensation paid to members of the Board of Trustees for the year ended June 30, 2019.

See independent auditors' report.

Shreveport Charter Foundation, Inc.
Schedule of Compensation, Benefits and Other Payments to Agency Head
For the year ended June 30, 2019

Agency Head Name: Ann Stokes

Purpose	Amount
Reimbursements	\$ -

There were no payments to the agency head for the year ended June 30, 2019.

See independent auditors' report.



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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 Trustees
Shreveport Charter Foundation, Inc.
Shreveport, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Shreveport Charter Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shreveport Charter Foundation, Inc.'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 Shreveport Charter Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Shreveport Charter Foundation, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shreveport Charter Foundation, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs at item 2019-002.

We noted certain matters that we reported to management of Shreveport Charter Foundation, Inc. in a separate letter dated November 18, 2019.

Shreveport Charter Foundation Inc.'s Response to Findings

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

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana

November 18, 2019



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

To the Board of Trustees
Shreveport Charter Foundation, Inc.
Shreveport, Louisiana

Report on Compliance for Each Major Program

We have audited Shreveport Charter Foundation, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Shreveport Charter Foundation Inc.'s major federal programs for the year ended June 30, 2019. Shreveport Charter Foundation Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Shreveport Charter Foundation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 Shreveport Charter Foundation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Shreveport Charter Foundation, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Shreveport Charter Foundation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Shreveport Charter Foundation, Inc. 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 Shreveport Charter Foundation, Inc.'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 Shreveport Charter Foundation, Inc.'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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a significant deficiency.

Shreveport Charter Foundation, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Shreveport Charter Foundation, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana

November 18, 2019

Shreveport Charter Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2019

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Compliance and internal control over financial reporting:

Significant deficiency(ies) identified?	Yes
Material weakness(es) identified?	No
Noncompliance material to financial statements noted?	No

A separate management letter was issued on November 18, 2019

Federal Awards

Internal control over major programs:

Significant deficiency(ies) identified?	Yes
Material weakness(es) identified?	No

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? Yes

Identification of major programs:

CFDA Number	Name of Program or Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? No

Section II – Financial Statement Findings Reported in Accordance with *Governmental Auditing Standards*

Current Year Findings and Responses

2019 – 001 Payroll Records

Condition – Signed offer or compensation letters could not be obtained for two teachers selected for payroll testing and three teachers were given pay increases from the original signed offer letter with no support for the pay raises.

Criteria – Per the Payroll and Human Resources Policies and Procedures, the Human Resources Department is responsible for maintaining updated employee records at all times that reflect the rate of pay each employee receives and any benefits provided.

Shreveport Charter Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2019

Cause – Personnel did not follow the Payroll and Human Resources Policies and Procedures. Signed offer or compensation letters and documentation to support pay raises were not maintained.

Effect – The Foundation may overpay or underpay teachers without proper documentation on file.

Recommendation – We recommend that management review controls over payroll and steps should be taken to ensure signed offer and compensation letters are properly maintained and policies and procedures are followed.

Views of Responsible Officials – Management has not found any supporting documentation or additional information to contradict this finding.

2019 – 002 Title I Payroll Reimbursement Requests – See Federal Award Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Current Year Findings and Responses

2019 – 002 Title I Payroll Reimbursement Requests

Federal Program, CFDA #, Federal Award # and Year, Federal Agency, Pass-Through Entity – Title I Grants to Local Educational Agencies, CFDA 84.010, N/A and 2019, United States Department of Education, Caddo Parish School Board

Criteria – 2 CFR 200.303 requires the entity to establish and maintain internal controls over compliance with respect to federal awards. Internal controls should be in place to ensure expenditures are not duplicated on multiple reimbursement requests. Internal controls should be in place to ensure only budgeted expenditures are requested for reimbursement.

Condition – Payroll expenditures for five of the eight employees paid with Title I program funds were duplicated and included in two reimbursement requests. Federal and state unemployment taxes that were not included in the approved budget were requested for reimbursement. These expenditures were reimbursed by the pass through entity.

Effect – The Foundation was reimbursed for unallowable and duplicated expenditures due to improper requests. The entity is not in compliance with the requirements of the federal program. The noncompliance is not considered to be material to the program. The entity owes the improperly reimbursed amounts back to the pass through entity.

Cause – Policies and procedures are not in place to detect and correct duplicate expenditures included on multiple reimbursement requests. Policies and procedures are not in place to identify expenditures requested for reimbursement that are not included in the approved budget. The improper expenditures were requested in error and controls in place were not sufficient to detect and correct the errors prior to submission of the reimbursement requests.

Shreveport Charter Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2019

Questioned Costs – \$17,012. Computed as duplicate payroll requests in the amount of \$16,350 and improperly requested federal and state unemployment taxes in the amount of \$662.

Repeat Finding – No

Recommendation – We recommend that the entity prepare monthly or quarterly reimbursement requests so payroll is requested on a more regular basis. We also recommend that the entity implement an additional level of review of reimbursement requests prior to submission by an appropriate member of management outside of the schools. The review should include a comparison to prior reimbursement requests and the general ledger to ensure duplicate expenditures are not requested.

Views of Responsible Officials – Management has not found any supporting documentation or additional information to contradict this finding.

Financial Statement Findings Reported in Accordance with *Government Auditing Standards*

2019-001

Condition – Signed offer or compensation letters could not be obtained for two teachers selected for payroll testing and three teachers were given pay increases from the original signed offer letter with no support for the pay raises.

Corrective Action Plan – We will enhance our training efforts with our school operations administrators so that they understand the importance and the ramifications of not having the proper documentation to support every personnel transaction. Additionally, we will be performing internal auditing procedures in an effort to ensure that all supporting documentation is properly filed in each employees' personal file.

Person Responsible for Corrective Action – Mark W. Gamble, State Financial Director

Anticipated Completion Date – We plan to initiate our plan by December 1, 2019

Federal Award Findings and Questioned Costs

2019-002

Condition – Payroll expenditures for five of the eight employees paid with Title I program funds were duplicated and included in two reimbursement requests. Federal and state unemployment taxes that were not included in the approved budget were requested for reimbursement. These expenditures were reimbursed by the pass through entity.

Corrective Action Plan – Our corrective action plan consists of adding an additional level of approval to the reimbursement request process. This approval will come from a member of the State CSUSA Team who has extensive experience in the grant reimbursement process and overall grant management knowledge. Our review will ensure that each reimbursement request contains the necessary supporting documentation as well as ensuring that duplicate claims are not being requested. It is our belief that this additional level of review and approval will greatly enhance our efforts to ensure accurate reimbursement requests.

Person Responsible for Corrective Action – Mark W. Gamble, State Financial Director

Anticipated Completion Date – We anticipate having our new plan in place by December 1, 2019

Shreveport Charter Foundation, Inc.
Summary Schedule of Prior Audit Findings
June 30, 2019

Financial Statement Findings Reported in Accordance with *Government Auditing Standards*

2018 – 001 Packing Slips

Condition – Packing slips could not be located to prove that items purchased were received.

Status – Since the release of this audit finding, the packing slip process has been closely monitored by the SOA and the Principal at each campus. Additionally, the current status of packing slips and the number of packing slips that have been received is presented to the board monthly to keep them updated on this matter. Since the release of the previous years' audit report, the process that the Foundation has been following is that each packing slip is signed by the individual who is receiving the items being ordered. Once signed, the packing slip is compared to the purchase order for accuracy, attached to the purchase order, and then properly filed.

2018 – 002 State Compliance

Condition – Three Board Members did not complete and submit to the Louisiana Board of Ethics a Tier 3 Personal Financial Disclosure Statement for 2017.

Status – This matter has been resolved going forward.



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Management Letter

To the Board of Trustees
Shreveport Charter Foundation, Inc.
Shreveport, Louisiana

We have audited the financial statements of Shreveport Charter Foundation, Inc. as of and for the year ended June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated November 18, 2019. 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 and the provisions of the Uniform Guidance.

As a part of our examination, we have issued our report on the financial statements, dated November 18, 2019, and our report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards and on compliance for each major program and internal control over compliance required by the Uniform Guidance dated November 18, 2019.

During the course of our examination, we became aware of the following matters which represent immaterial deviations of compliance or suggestions for improved internal controls:

MLC 2019-001 Packing Slips

Year of Origination – June 30, 2017

Observation:

According to the purchasing procedures, order confirmation procedures should be performed. These procedures include confirming that the items listed on the packing slip match the items on the purchase order, recording the date of receipt on the packing slip, signing the packing slip, and scanning the packing slip into the purchasing software for the vendor's payment to be processed.

Packing slips could not be located to prove that items purchased were received and processed in accordance with the Purchasing procedures. Schools may not have received all of the items purchased and there is potential for theft. Personnel did not follow the purchasing procedures related to packing slips. Packing slips were not maintained when purchases were received.

Recommendations:

We recommend that management review policies and procedures over purchasing to determine if retention of packing slips is a control which should be enforced or update the policies and procedures with alternate controls to ensure purchases are received prior to payment. If retention of packing slips is retained as a control, steps should be taken to ensure the packing slips are being properly processed and maintained.

Views of responsible officials and corrective actions:

Management has reviewed our purchasing internal controls with regards to the retention of packing slips. Our policies and procedures are being updated and new internal controls will no longer require the retainage of packing slips as our electronic purchase order payment system requires the receiving employee to input the actual quantities received. Questions regarding orders received can then be traced electronically back to the receiving employee.

MLC 2019-002 Cash Receipts

Year of Origination – June 30, 2019

Observation:

According to the cash receipts and deposits policies and procedures, student cash receipt procedures should be performed. All students turning in \$20 or more and all parents or students making a payment for the Before/Aftercare program are to receive a receipt from a numbered receipt book.

Numbered receipts could not be located to prove that cash was received from students in accordance with the policies and procedures. There could be misappropriation of cash received from students. Personnel did not follow the cash receipts and deposits policies and procedures. Receipts were not issued for Before/Aftercare.

Recommendations:

We recommend that management review controls over cash receipts and that steps be taken to ensure policies and procedures are followed and numbered receipts are being properly maintained.

Views of responsible officials and corrective actions:

Management has reviewed our internal controls in the area of cash receipts with the leadership and school operations administrators at both of our campuses. The review reiterated to them that strict adherence to the policy is needed in order to minimize opportunities for the misappropriation of cash received from students to occur. Additionally, we will be performing internal auditing procedures in an effort to ensure that all supporting documentation is properly retained.

We recommend management address the foregoing issue as an improvement to operations and the administration of public programs. We are available to further explain the suggestion or help implement the recommendation.

This report is intended solely for the information and use of the Board of Trustees of Shreveport Charter Foundation, Inc., management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Although the intended use of these reports may be limited, under Louisiana Revised Statute 24:513, this report is distributed by the Office of the Louisiana Legislative Auditor as a public document.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana
November 18, 2019

**Shreveport Charter Foundation, Inc.
Shreveport, Louisiana**

STATEWIDE AGREED-UPON PROCEDURES REPORT

For the Period July 1, 2018 through June 30, 2019



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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Trustees of Shreveport Charter Foundation, Inc.
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Shreveport Charter Foundation, Inc. (the Foundation) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures Year 3 (SAUPs) for the fiscal period July 1, 2018 through June 30, 2019. The Foundation's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated results are as follows:

Written Policies and Procedures

1. Obtained and inspected the entity's written policies and procedures and observed that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
 - a) ***Disaster Recovery/Business Continuity***, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

Results: The Foundation's written policies and procedures for Disaster Recovery/Business Continuity do not address identification of critical data and frequency of data backups, storage of backups in a separate physical location isolated from the network, and periodic testing/verification that backups can be restored.

Shreveport Charter Foundation Board of Trustees (Board)

2. Obtained and inspected the Shreveport Charter Foundation Board of Trustees minutes for the fiscal period, as well as the Board's bylaws in effect during the fiscal period, and:
 - a) Observed that the Board met with a quorum at least monthly, or on a frequency in accordance with the Board's bylaws.

Results: The Board met on a frequency in accordance with the Board's bylaws. A quorum was not present for four of the meetings during the fiscal period.

- b) Observed that the minutes referenced or included financial activity relating to public funds.

Results: Minutes for two meetings during the fiscal period did not reference or include financial activity relating to public funds.

Collections (excluding EFTs)

- 3. Obtained a listing of deposit sites for the fiscal period where deposits for cash/check/money orders (cash) are prepared and management's representation that the listing is complete. Selected all deposit sites.

Results: No exceptions were found as a result of applying the procedure.

- 4. For each deposit site selected, obtained a listing of collection locations and management's representation that the listing is complete. Randomly selected one collection location for each deposit site, obtained and inspected written policies and procedures relating to employee job duties (if no written policies or procedures – inquired of employees about their job duties) at each collection location, and observed that job duties are properly segregated at each collection location such that:

Results: No exceptions were found as a result of applying the procedure.

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

Results: No exceptions were found as a result of applying the procedure.

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

Results: Two collection locations, Magnolia School of Excellence - Lower Campus and Magnolia School of Excellence - Upper Campus, have employees responsible for collecting cash who are also responsible for preparing/making bank deposits. Another employee is not responsible for reconciling collection documentation to the deposit.

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

Results: No exceptions were found as a result of applying the procedure.

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

Results: No exceptions were found as a result of applying the procedure.

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

Results: Management indicated that all employees with access to cash are covered by an insurance policy for theft.

- 6. Obtained a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Asked management to identify the entity's main operating account. Selected all entity bank account that have deposits other than EFTs. Randomly selected two deposit dates for each of the 4 bank accounts selected (selected the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly selected a

deposit if multiple deposits were made on the same day). Obtained supporting documentation for each of the 8 deposits and:

Results: No exceptions were found as a result of applying the procedure.

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

Results: No exceptions were found as a result of applying the procedure.

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

Results: No exceptions were found as a result of applying the procedure.

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

Results: No exceptions were found as a result of applying the procedure.

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

Results: Five deposits over \$100 were not made within one business day when bank is less than 10 miles away.

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

Results: No exceptions were found as a result of applying the procedure.

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

- 7. Obtained a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Selected all locations.

Results: No exceptions were found as a result of applying the procedure.

- 8. For each location selected under #7 above, obtained a listing of those employees involved with non-payroll purchasing and payment functions. Obtained written policies and procedures relating to employee job duties (if the entity had no written policies and procedures, inquired of employees about their job duties), and observed that job duties are properly segregated such that:

Results: No exceptions were found as a result of applying the procedure.

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

Results: Location 4 (Board of Trustees) had lack of segregation of duties for initiating, approving, and placing an order/making the purchase.

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

Results: Location 4 (Board of Trustees) had lack of segregation of duties for processing and approving payments to vendors.

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

Results: Location 2 (Magnolia School of Excellence – Lower Campus) and Location 3 (Magnolia School of Excellence – Upper Campus) each had one employee responsible for processing payments who is not prohibited from adding/modifying vendor files and no other employee is periodically reviewing changes to vendor files.

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

Results: Location 2 (Magnolia School of Excellence – Lower Campus), Location 3 (Magnolia School of Excellence – Upper Campus) and Location 4 (Board of Trustees) each had one employee or individual who processes payments and also mails the check.

9. For each location selected under #7 above, obtained the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtained management's representation that the population is complete. Randomly selected five disbursements for each location, obtained supporting documentation for each transaction and:

Results: No exceptions were found as a result of applying the procedure.

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

Results: Location 3 (Magnolia School of Excellence – Upper Campus) had one disbursement that did not match the related original invoice/billing statement. Location 4 (Board of Trustees) had one disbursement during the fiscal period and it was not supported by an invoice or billing statement.

- b) Observed that the disbursement documentation included evidence of segregation of duties tested under #8, as applicable.

Results: Location 2 (Magnolia School of Excellence – Lower Campus) did not have evidence of segregation of duties for initiating, approving, and placing an order/making the purchase for five disbursements. Location 4 (Board of Trustees) had one disbursement during the fiscal period and it had lack of segregation of duties for initiating, approving, and placing an order/making the purchase. Location 4 (Board of Trustees) had one disbursement during the fiscal period and it had lack of segregation of duties for processing and approving payments to vendors. Location 2 (Magnolia School of Excellence – Lower Campus) and Location 3 (Magnolia School of Excellence – Upper Campus) for five disbursements each had employees responsible for processing payments who are not prohibited from adding/modifying vendor files and no other employee is periodically reviewing changes to vendor files. Location 2 (Magnolia School of Excellence – Lower Campus) had three disbursements, Location 3 (Magnolia School of Excellence – Upper Campus) had two disbursements and Location 4 (Board of Trustees) had one disbursement in which the employee or individual who processed payments also mailed the checks.

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

10. Obtained from management a representation that the entity does not have credit cards, debit cards, fuel cards or P-cards.

Results: No exceptions were found as a result of applying the procedure.

Ethics

11. Obtained a listing of employees employed during the fiscal period and management's representation that the listing is complete. Randomly selected 5 employees. Obtained ethics documentation from management and:

Results: No exceptions were found as a result of applying the procedure.

- a) Observed that the documentation demonstrated each employee completed one hour of ethics training during the fiscal period.

Results: No exceptions were found as a result of applying the procedure.

- b) Observed that the documentation demonstrated each employee attested through signature verification that he or she had read the entity's ethics policy during the fiscal period.

Results: No exceptions were found as a result of applying the procedure.

Other

12. Obtained a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Selected all misappropriations on the listing, obtained supporting documentation, and observed that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Results: Management represented that there had been no misappropriations of public funds or assets during the fiscal year.

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

Results: No exceptions were found as a result of applying the procedure.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS, & INGRAM, LLC
Shreveport, Louisiana
October 28, 2019

Shreveport Charter FOUNDATION

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Trustees

Phillip Rozeman, M.D.

Dr. Pamela Barker

Tim Nielsen

October 28, 2019

Louisiana legislative Auditor
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Baton Rouge, LA 70804

and

Carr, Riggs & Ingram, LLC
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Shreveport, LA 71105

RE: Management's Response to Statewide Agreed-Upon Procedures

Management of Shreveport Charter Foundation, Inc. has reviewed the Independent Accountants' Report on Applying Agreed-Upon Procedures. Management is in agreement with the report as provided by Carr, Riggs & Ingram, LLC. Shreveport Charter Foundation, Inc. will add policies and procedures and implement changes where necessary to meet the expectations identified in the report.

Shreveport Charter Foundation, Inc.



Mark W. Gamble
State Financial Director

Magnolia School of Excellence

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