



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

December 4, 2019

**To the users of this report:**

The Louisiana Legislative Auditor (LLA), pursuant to the Audit Law of the State of Louisiana, is issuing the audit report of the Jefferson Parish Charter School – Discovery Health Sciences Foundation, Inc. (auditee) for the fiscal year ended June 30, 2019.

As noted on pages 40 through 42, the contracted auditor reported findings entitled “Advance of Public Funds” and “Advance of Public Funds and Public Bid Law.” Because the LLA was specifically mentioned in both findings, it is necessary to clarify our position on the transactions referenced in the findings.

The LLA’s focus in this matter is on the use of public funds. The LLA does not disagree with the conclusions reached by the Attorney General in the two opinions<sup>1</sup> relied upon by the auditee in its Management’s Response in Section IV of the audit. Attorney General’s opinions, however, are limited to the facts presented.

The LLA maintains that it should be made clear at the outset that the totality of facts show that \$2,250,000.00 in public funds were used by the auditee to support a private entity, Friends of Discovery Health Sciences Foundation, Inc. (Foundation). These facts were not presented to the Attorney General in the two referenced opinions. The public funds were transferred by the auditee to the Foundation as follows:

1. The auditee made two separate loans to the Foundation totaling \$1.6 million; and
2. The auditee made advance lease payments on its sublease of modular buildings to the Foundation in the amount \$650,000.00.

These transactions from the auditee to the Foundation appear to have been made to support the Foundation and its ability to secure bond financing to construct a new school campus to be used by the auditee as a public charter school under a Facilities Lease Agreement.

The proper expenditure of public funds requires compliance with Article VII, Section 14 of the Louisiana Constitution of 1974. Under the *Cabela’s*<sup>2</sup> analysis, the entity spending the funds must have the legal authority to do so and must be able to show:

<sup>1</sup> AG Op. Nos. 18-0006 and 18-0128.

<sup>2</sup> *Board of Directors of Indus. Development Bd. of City of Gonzales, Louisiana, Inc. v. All Taxpayers, Property Owners, Citizens of City of Gonzales, et al*, 938 So.2d 11 (La. 9/6/06) (known as “*Cabela’s*”).

1. A public purpose for the expenditure or transfer that comports with the governmental purpose that the public entity has legal authority to pursue;
2. That the expenditure or transfer, taken as a whole, does not appear to be gratuitous; and
3. That the public entity has a demonstrable, objective, and reasonable expectation of receiving at least equivalent value in exchange for the expenditure or transfer of public funds.

From the facts shown, it does not appear that the auditee considered the *Cabela's* criteria prior to (1) making the loans with the bank; (2) tendering the proceeds of the loans to the Foundation; or (3) advancing the lease payments to the Foundation. Therefore, neither the two loans totaling \$1.6 million nor the advance lease payments totaling \$650,000.00 appear to be supported under the *Cabela's* analysis.

In addition, because it appears \$2,250,000.00 in public funds were used toward the construction of the new school campus, which the Foundation will lease to the auditee, this appears to violate La. R.S. 38:2225.3 of the Public Bid Law.

The LLA recommends the auditee request an Attorney General opinion addressing these two specific issues:

1. Whether the loan of public funds by the auditee to support a private entity violates Article VII, Section 14 of the Constitution; and
2. Whether La. R.S. 38:2225.3 is applicable to the construction of a building intended to be used as a public charter school when \$2,250,000.00 in public funds are used to construct the facility by a private entity.

If you need further assistance, please contact Bradley D. Cryer, CPA, Director of Local Government Services at [bcryer@lla.la.gov](mailto:bcryer@lla.la.gov) or (225) 339-3880.

Sincerely,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

**DISCOVERY HEALTH SCIENCES  
FOUNDATION, INC.**

Audit of Combined Financial Statements

June 30, 2019



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## Independent Auditor's Report

To the Board of Directors  
Discovery Health Sciences Foundation, Inc.  
Kenner, Louisiana

### Report on the Financial Statements

We have audited the accompanying combined financial statements of Discovery Health Sciences Foundation, Inc., a component unit of Jefferson Parish Public School System, and its affiliate, Friends of Discovery Health Sciences Foundation, Inc. (collectively, the Organization), which comprise the combined statement of financial position as of June 30, 2019, the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements (collectively, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

#### LOUISIANA • TEXAS

### **Emphasis of a Matter**

As discussed in Note 1 to the financial statements, for the year ended June 30, 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to his matter.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statement of financial position, combining statement of activities, schedule of board of directors, and schedule of compensation, benefits, and other payments to agency head are presented for purposes 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The performance and statistical data, included as schedules 1 and 2 are not a required part of the basic financial statements, but is supplementary information required by Louisiana State Law. 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. We have applied certain limited procedures, which are described in the independent accountant's report on applying agreed-upon procedures. However, we did not audit this information and, accordingly, express no opinion on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



A Professional Accounting Corporation

Metairie, LA  
October 14, 2019

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Combined Statement of Financial Position**  
**June 30, 2019**

<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 2,434,069
Restricted Cash	30,574,508
Accounts Receivable	310,992
Prepaid Expenses	404,004
	<hr/>
<b>Total Current Assets</b>	<b>33,723,573</b>
	<hr/>
<b>Property and Equipment, Net</b>	<b>20,464,728</b>
	<hr/>
<b>Noncurrent Assets</b>	
Deposits	79,729
Deferred Compensation Investments	170,280
	<hr/>
<b>Total Noncurrent Assets</b>	<b>250,009</b>
	<hr/>
<b>Total Assets</b>	<b>\$ 54,438,310</b>
	<hr/> <hr/>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts Payable and Accrued Expenses	\$ 5,916,994
Accrued Salaries and Benefits	593,421
Obligations Under Capital Leases - Current Portion	338,753
Student Activity Liability	73,603
	<hr/>
<b>Total Current Liabilities</b>	<b>6,922,771</b>
	<hr/>
<b>Noncurrent Liabilities</b>	
Obligations Under Capital Leases - Noncurrent Portion	1,024,216
Bonds Payable	43,014,175
Retainage Payable	652,512
Deferred Compensation Liability	170,280
	<hr/>
<b>Total Noncurrent Liabilities</b>	<b>44,861,183</b>
	<hr/>
<b>Total Liabilities</b>	<b>51,783,954</b>
	<hr/>
<b>Net Assets</b>	
Without Donor Restrictions	2,582,510
With Donor Restrictions	71,846
	<hr/>
<b>Total Net Assets</b>	<b>2,654,356</b>
	<hr/>
<b>Total Liabilities and Net Assets</b>	<b>\$ 54,438,310</b>
	<hr/> <hr/>

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

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Combined Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues and Support</b>			
Per Pupil Support	\$ 14,209,015	\$ -	\$ 14,209,015
Federal Sources	1,317,098	-	1,317,098
Tuition	35,884	-	35,884
Fundraising Revenue	230,079	-	230,079
Contributions and Donations	47,449	77,382	124,831
Income from Meals	118,871	-	118,871
Student Activities and Fees	302,041	-	302,041
Interest Income	307	-	307
	<hr/>		
<b>Total Public Support and Other Revenues</b>	16,260,744	77,382	16,338,126
	<hr/>		
Net Assets Released from Restrictions	31,384	(31,384)	-
	<hr/>		
<b>Total Revenues and Support</b>	16,292,128	45,998	16,338,126
	<hr/>		
<b>Expenses</b>			
Program Services			
Student Instruction and Activities	8,099,158	-	8,099,158
Supporting Services			
Management and General	6,628,973	-	6,628,973
Fundraising	234,979	-	234,979
	<hr/>		
<b>Total Expenses</b>	14,963,110	-	14,963,110
	<hr/>		
<b>Change in Net Assets</b>	1,329,018	45,998	1,375,016
	<hr/>		
<b>Net Assets, Beginning of Year</b>	1,253,492	25,848	1,279,340
	<hr/>		
<b>Net Assets, End of Year</b>	\$ 2,582,510	\$ 71,846	\$ 2,654,356
	<hr/> <hr/>		

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

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Combined Statement of Functional Expenses**  
**For the Year Ended June 30, 2019**

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Student Instruction and Activities</u>	<u>Management and General</u>	<u>Fundraising</u>		
Salaries and Benefits	\$ 6,070,388	\$ 2,330,997	\$ 143,631	\$ 8,545,016	
Benefits	1,277,141	470,192	33,392	1,780,725	
Depreciation	-	842,795	-	842,795	
Transportation	-	791,570	-	791,570	
Food Service Management	-	405,952	-	405,952	
Materials and Supplies	227,366	124,444	25,301	377,111	
Cleaning Services	-	272,893	-	272,893	
Purchased Professional and Technical Services	30,102	194,895	32,655	257,652	
Minimum Foundation Program Fees	-	233,931	-	233,931	
Interest	-	214,228	-	214,228	
Rentals	166,553	11,624	-	178,177	
Legal Services	-	175,808	-	175,808	
Utilities	-	145,151	-	145,151	
Textbooks	139,290	-	-	139,290	
Insurance	-	112,485	-	112,485	
Technology	63,373	24,858	-	88,231	
Repairs and Maintenance Services	-	62,002	-	62,002	
Athletics	59,322	-	-	59,322	
Travel	26,328	22,866	-	49,194	
Other Miscellaneous	427	47,869	-	48,296	
Communications	-	45,572	-	45,572	
Audit and Accounting Services	-	43,552	-	43,552	
Dues and Fees	1,685	37,946	-	39,631	
Field Trips	37,183	-	-	37,183	
Advertising and Recruiting	-	13,109	-	13,109	
Printing and Binding	-	4,234	-	4,234	
<b>Total Expenses</b>	<b>\$ 8,099,158</b>	<b>\$ 6,628,973</b>	<b>\$ 234,979</b>	<b>\$ 14,963,110</b>	

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

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Combined Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

<b>Cash Flows from Operating Activities</b>	
Change in Net Assets	\$ 1,375,016
Adjustments to Reconcile Change in Net Assets to:	
Net Cash Provided by Operating Activities	
Depreciation	842,795
(Increase) Decrease in Assets	
Accounts Receivable	75,676
Prepaid Expenses	(134,347)
Deposits	(4,850)
Increase (Decrease) in Liabilities	
Accounts Payable and Accrued Expenses	4,889,623
Accrued Salaries and Benefits	108,598
Deferred Revenue	60,182
Retainage Payable	652,512
	<u>7,865,205</u>
<b>Net Cash Provided by Operating Activities</b>	
<b>Cash Flows from Investing Activities</b>	
Purchase of Property and Equipment	<u>(14,946,993)</u>
<b>Net Cash Used in Investing Activities</b>	
<u>(14,946,993)</u>	
<b>Cash Flows from Financing Activities</b>	
Principal Payments on Notes Payable	(1,237,009)
Proceeds from Bonds Payable	42,538,245
Payments of Bond Issuance Costs	(1,318,347)
Payment of Capital Lease Obligation	(231,499)
Principal Borrowings on Line of Credit	1,062,510
Payments on Line of Credit	<u>(1,322,510)</u>
<b>Net Cash Provided by Financing Activities</b>	
<u>39,491,390</u>	
<b>Net Increase in Cash and Restricted Cash</b>	32,409,602
<b>Cash and Restricted Cash, Beginning of Year</b>	<u>598,975</u>
<b>Cash and Restricted Cash, End of Year</b>	<u><u>\$ 33,008,577</u></u>
<b>Supplemental Disclosures of Cash Flow Information</b>	
Cash Paid During the Year for Interest	<u><u>\$ 214,228</u></u>
Noncash Investing and Financing Transaction	
Net Capitalized Interest in Construction in Progress Related to Bond Issuance	<u><u>\$ 1,399,999</u></u>
Lease of Equipment	
Capital Lease Obligation	<u><u>\$ 83,388</u></u>

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

# DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

## Notes to Combined Financial Statements

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### Note 1. Summary of Significant Accounting Policies

#### Organization

The accompanying combined financial statements include the accounts of Discovery Health Sciences Foundation, Inc. (Discovery) and Friends of Discovery Health Sciences Foundation, Inc. (Friends) (collectively, the Organization).

Discovery, a nonprofit corporation organized on a non-stock basis, was incorporated in September 2011 for the purpose of operating charter schools located in Jefferson Parish, Louisiana which provide student instruction and activities. Discovery was created to provide a rigorous learning environment where students achieve academically, develop intellectual curiosity, and practice environmental responsibility while exploring health and science topics and careers. Discovery began operations in August 2013. Discovery's charter schools are a component unit of the Jefferson Parish Public School System (JPPSS).

In June 2012, the JPPSS authorized Discovery to operate a Type 1 Charter School, Kenner Discovery Health Sciences Academy (KDHSA). The initial five (5) year charter expired June 2018. In December 2017, the JPPSS renewed the charter for ten (10) years, expiring June 2028.

In March 2019, the JPPSS authorized Discovery to operate a second charter school, the Dr. John Ochsner Discovery Health Sciences Academy at John Martyn campus (DJOD) effective July 1, 2020. During August 2019, Discovery's board approved a memorandum of understanding to operate the charter school in partnership with Ochsner Health System.

Friends, a nonprofit corporation organized on a non-stock basis, was incorporated in February 2017 as a supporting organization for the benefit of Discovery.

#### Combined Financial Statements

The accompanying combined financial statements include the accounts of Discovery, and its affiliate, Friends. Discovery has controlling financial interest through direct ownership of a majority voting interest in Friends and has an economic interest in Friends. All significant intercompany accounts and transactions have been eliminated.

#### Basis of Net Asset Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets:

*Net Assets Without Donor Restrictions* - Net assets for general use that are not subject to donor-imposed restrictions.

*Net Assets With Donor Restrictions* - Net assets whose use is limited by donor-imposed time and/or purpose restrictions. Once expended for their restricted purpose, these restricted net assets are released to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restriction.

# DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

## Notes to Combined Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### **Basis of Accounting**

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

#### **Use of Estimates**

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

#### **Functional Expenses**

The costs of providing the program services and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated on a reasonable basis that is consistently applied. When possible, expenses are first allocated by direct identification and then allocation if an expenditure benefits more than one program or function. The expenses that are allocated are allocated on the basis of estimates of time and effort. There were no such allocated expenses during the year ended June 30, 2019.

#### **Revenues and Support**

Discovery's primary source of funding is through the State Public School Fund from the Jefferson Parish Public School System (JPPSS) and the Louisiana Department of Education (LDOE). Discovery received its support primarily from the JPPSS and LDOE based on eligible students in attendance paid on a monthly basis. State and federal grants are on a cost reimbursement basis. An accrual is made when eligible expenses are incurred.

Private grants and contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Discovery will not recognize a conditional promise to give until the conditions on which the promise depends are substantially met. Contributions are reported as increases in net assets without donor restrictions or net asset with donor restrictions depending on the existence and/or nature of any donor restrictions. When restrictions expire (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. Contributions expected to be collected in less than one year are reported at net realizable value. Those expected to be collected in more than one year are recorded at fair value at the date of the promise and are discounted at an appropriate discount rate. Future amortization of the discount will be included in contribution revenue. Management closely monitors outstanding balances and writes off any balances deemed uncollectible.

# DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

## Notes to Combined Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### Revenues and Support (Continued)

Revenue from other sources, including student activities and fees, tuition, and income from meals are recorded and recognized as revenue in the period in which the Organization provides the service at the amount that reflects the consideration to which the Organization expects to be entitled for providing the service or good.

The Organization utilizes the guidance in ASU 2018-08 in the assessment of whether a revenue is an exchange transaction (contract) or contribution (non-contract) and considers factors including commensurate value received, reciprocity, and donor-imposed conditions. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue from performance obligations satisfied over time is recognized based on actual time incurred in relation to the total expected period of providing the service, which is deemed to be the school year, which is simultaneous with the fiscal year. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to student activities and fees and tuition. The Organization measures the performance obligation throughout the school year. Revenue for performance obligations satisfied at a point in time, which include mainly income from meals and are generally immaterial, are recognized when services are provided. The Organization determines the transaction price based on standard charges for goods or services provided to students, which are predetermined by management. Fees are generally nonrefundable, and total refunds issued annually are considered negligible.

#### Cash and Cash Equivalents

During the year, cash may consist of both unrestricted and restricted balances. Unrestricted cash balances represent cash available for general operating purposes. Restricted cash balances consist of amounts received from individuals or entities who specified the use of the funds. At June 30, 2019, restricted cash balances of \$30,574,508 consist of bond proceeds held in the name of the Organization with a bond trustee and are restricted for construction in progress.

For purposes of the statement of cash flows, the Organization considers all investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2019, the Organization had no cash equivalents.

#### Property and Equipment

Property and equipment are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The net carrying amount is considered the net realizable value. Donated property and equipment are recorded at fair market value as of the date received. The Organization maintains a capitalization threshold of \$5,000 for office and classroom equipment, software, building improvements, and portable facilities, or any one item costing under \$5,000 alone if considered valuable and whose useful life exceeds a year. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. All reported property and equipment except land and construction in progress are depreciated.

# DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

## Notes to Combined Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### Property and Equipment (Continued)

Depreciation is computed using the straight-line method over the following useful lives:

Software	3 Years
Office and Classroom Equipment	3 - 5 Years
Building Improvements	5 - 7 Years
Portable Facilities	7 - 8 Years

#### Capitalization of Interest

The Organization capitalizes interest expense on qualifying construction-in-progress expenditures based on the interest cost of the Organization's borrowings less any interest earned on related interest-bearing investments acquired with proceeds of the tax-exempt borrowings. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled \$1,399,999, net of \$394,278 in investment income for the year ended June 30, 2019.

#### Income Taxes

Discovery is a Louisiana nonprofit organization under Section 509(a)(1) of the Internal Revenue Code that has been granted an exemption from the payment of income taxes under Section 501(c)(3) and has been determined to be other than a private foundation.

Friends is a Louisiana nonprofit organization under Section 509(a)(3) of the Internal Revenue Code that has been granted an exemption from the payment of income taxes under Section 501(c)(3) and has been determined to be a supporting organization other than a private foundation.

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. The Organization believes that it has appropriate support for any tax positions taken, and management has determined that there are no uncertain tax positions that are material to the combined financial statements during the year ended June 30, 2019. Penalties and interest assessed by income taxing authorities, if any, are included in income tax expense.

#### Concentrations

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be recovered. The Organization periodically maintains cash in bank accounts in excess of insured limits. As of June 30, 2019, the Organization's bank balances were \$33,129,602. Balances insured by the Federal Deposit Insurance Corporation (FDIC), which covers the total balance of accounts up to \$250,000 per financial institution, totaled \$361,575. Deposits of \$32,768,027 were uninsured and subject to custodial credit risk at June 30, 2019. Uninsured restricted cash deposits totaling \$30,574,508 are invested in a money market and are guaranteed by government obligations, including treasury bills, coupons, and repurchase agreements, which are backed by the full faith and credit of the United States Federal Government. The Organization has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

# DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

## Notes to Combined Financial Statements

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### **Concentrations (Continued)**

Discovery received 85% of its revenues in the year ended June 30, 2019, from the JPPSS, subject to its charter school contract with Discovery's Board and 8% from other Louisiana state and federal grant programs.

#### **Compensated Absences**

Employees of Discovery receive between ten (10) and twelve (12) days of paid time off (PTO) (a combination of vacation time, sick time, and personal holiday time) according to their classification. Unused PTO balances, up to ten (10) days, are carried over into the following year with a maximum of twenty (20) days carried at any one time per employee.

#### **Student Activity Liability**

Student activity liability represents deposits made for various student activity programs. Discovery considers all student activity funds and unexpended income from these funds to be funds held in custody.

#### **Deferred Compensation Investments**

A deferred compensation investment account is sponsored by Discovery in order to maintain a 457(b) Deferred Compensation Plan for its Executive Director. Discovery contributes the maximum allowed to the plan, as required by the Executive Director's contract.

#### **Reversionary Interest in Funds and Assets**

All funds received from the Louisiana Department of Education, United States Department of Education, or other state or federal agencies are to be used for educational purposes as described in Discovery's charter agreement and grant awards. These agencies, however, have a reversionary interest in these funds, as well as any assets acquired with these funds. Should the charter agreement not be renewed, those funds and assets will transfer to the appropriate agency.

#### **Recent Accounting Pronouncements - Not Yet Adopted**

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from leases classified as finance or operating. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2019. Management is currently evaluating the impact of adopting the new revenue standard on its combined financial statements.

## DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

### Notes to Combined Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### **Recent Accounting Pronouncements - Adopted**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 supersedes most current revenue recognition guidance, including industry-specific guidance, and requires expanded disclosures about revenue recognition to enable financial statement users to understand the nature, timing, amount, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization implemented ASU 2014-09 using a modified retrospective method of application to all contracts. The Organization performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for tuition, income from meals and student activities, and fees revenue, the Organization performed an analysis into the application of the portfolio approach as a practical expedient to group contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. The adoption of ASU 2014-09 resulted in changes to the disclosure of revenue primarily related to tuition, income from meals, and student activities and fees. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2014-09. As a result, no cumulative effect adjustment was recorded upon adoption.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented which resulted in no reclassification of net assets.

In November 2016, the FASB issued ASU-2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The update addresses the presentation of restricted cash on the statement of cash flows. The Organization implemented ASU 2016-18 during the fiscal year and has adjusted the presentation in these financial statements accordingly.

##### **Liquidity and Availability**

The Organization's objective is to maintain liquid financial assets without donor restrictions sufficient to cover 60 days of program expenditures. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. Expenditures are generally met within 30 days, utilizing the financial resources the School has available. In addition, the School operates with a budget to monitor sources and uses of funds throughout the year.

## DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

### Notes to Combined Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Liquidity and Availability (Continued)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$ 2,434,069
Accounts Receivable	<u>310,992</u>
<b>Total</b>	<b><u>\$ 2,745,061</u></b>

#### Note 2. Property and Equipment

Property and equipment consisted of the following:

Building and Improvements	\$ 4,581,065
Machinery and Equipment	1,362,382
Construction in Progress	17,528,220
Less: Accumulated Depreciation	<u>(3,006,939)</u>
<b>Total</b>	<b><u>\$ 20,464,728</u></b>

Depreciation expense was \$842,795, for the year ended June 30, 2019.

#### Note 3. Accounts Receivable

As of June 30, 2019, accounts receivable totaled \$310,992, which includes receivables for federal grants and state grants passed through the JPPSS. These receivables are considered to be fully collectible.

#### Note 4. Line of Credit

During the year ended June 30, 2019, Discovery's line of credit with Iberia Bank was renewed and increased, allowing for borrowings up to \$1,300,000 with a maturity date of February 16, 2019. Interest accrued at 2.25% above the Wall Street Journal Prime Rate. Discovery paid off this line of credit as part of the bond issuance during the year ended June 30, 2019. See Note 6.

## DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

### Notes to Combined Financial Statements

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#### Note 5. Notes Payable

##### Discovery

During the year ended June 30, 2016, Discovery entered into a 5-year promissory note with Iberia Bank in the amount of \$500,000, at an interest rate of 6.75% per annum, set to mature on April 11, 2021. Discovery used these funds to purchase covered walkways, certain infrastructure related to the installation of modular buildings, furniture, and other fixed assets. This note payable was paid off as part of the bond issuance during the year ended June 30, 2019. See Note 6.

##### Friends

On September 1, 2017, Friends entered into a 7-year promissory note with Iberia Bank in the amount of \$1,000,000, at an interest rate of 7.25% per annum, set to mature on December 1, 2024. Friends used these funds to purchase certain infrastructure related to the installation of leased modular buildings. This note payable was paid off as part of the bond issuance during the year ended June 30, 2019. See Note 6.

#### Note 6. Bonds Payable

In November 2018, Friends entered into a Loan Agreement with the Jefferson Parish Economic Development and Port District (JEDCO) in connection with the issuance of tax-exempt revenue bonds (Series 2018A) and taxable revenue bonds (Series 2018B) for the Kenner Discovery Health Sciences Academy Project, which provided funds for (i) financing the acquisition, construction, improvement, and equipment, and (ii) funding a debt service reserve fund, and (iii) funding capitalized interest during construction, and (iv) refunding indebtedness incurred by Friends and Discovery, and (v) paying the costs of issuance of the Series 2018A and 2018B bonds.

The Series 2018A bonds total \$43,895,000 and include term bonds that are broken down into increments of \$6,390,000 that bear interest at 4.8%, \$13,100,000 that bear interest at 5.5%, and \$24,405,000 that bear interest at 5.625%. Series 2018A bonds are subject to mandatory sinking fund redemption beginning June 15, 2021 and continuing through maturity on June 15, 2048. The Series 2018A bonds are subject to optional redemption commencing June 15, 2028, at a redemption price of 100% of the principal amount redeemed, plus accrued interest.

The Series 2018B bonds total \$915,000 and bear interest at 6.125%. Series 2018B bonds are subject to mandatory sinking fund redemption beginning June 15, 2021 and continuing through maturity on June 15, 2024.

Friends has granted a security interest in all of its presently existing and future accounts and revenues, as defined, as security for its obligation under the Loan Agreement.

## DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

### Notes to Combined Financial Statements

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#### Note 6. Bonds Payable (Continued)

Bonds payable outstanding as of June 30, 2019 are as follows:

Series 2018A	\$ 43,895,000
Series 2018B	915,000
	<u>44,810,000</u>
Less: Unamortized Original Issue Discount	(477,478)
Less: Debt Issuance Costs, Net of Amortization	<u>(1,318,347)</u>
<b>Bonds Payable</b>	<b><u>\$ 43,014,175</u></b>

The following is a schedule of mandatory sinking fund installments to retire the bonds.

<u>Year Ended June 30,</u>	<u>Series 2018A</u>	<u>Series 2018B</u>
2020	\$ -	\$ -
2021	50,000	75,000
2022	250,000	265,000
2023	500,000	280,000
2024	525,000	295,000
2025-2029	5,065,000	-
2030-2034	6,495,000	-
2035-2039	8,490,000	-
2040-2044	11,135,000	-
2045-2049	11,385,000	-
<b>Total</b>	<b><u>\$ 43,895,000</u></b>	<b><u>\$ 915,000</u></b>

#### Note 7. Capital Leases

##### Discovery

Discovery leases modular buildings from Mobile Modular Management Corporation under a capital lease. The economic substance of the lease is that Discovery is financing the acquisition of the assets through the lease; and, accordingly, it is recorded in Discovery's assets and liabilities.

##### Friends

Friends leases modular buildings from Vanguard Modular Building Systems under a capital lease. The economic substance of the lease is that Friends is financing the acquisition of the assets through the lease; and, accordingly, it is recorded in Friends' assets and liabilities.

## DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

### Notes to Combined Financial Statements

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#### Note 7. Capital Leases (Continued)

##### Friends (Continued)

The following is an analysis of the leased assets included in property and equipment:

Buildings	\$ 2,038,512
Equipment	87,762
Less: Accumulated Amortization	<u>(758,377)</u>
<b>Total</b>	<b><u>\$ 1,367,897</u></b>

Amortization of assets held under capital leases is included with depreciation expense.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 440,093
2021	336,363
2022	255,768
2023	255,768
2024	255,768
2025	<u>42,629</u>
<b>Total Minimum Lease Payments</b>	1,586,389
<b>Less: Amount Representing Interest</b>	<u>(223,420)</u>
<b>Present Value of Minimum Lease Payments</b>	<b><u>\$ 1,362,969</u></b>

#### Note 8. Retirement Plans

Substantially all employees of Discovery are members of an employer sponsored Safe Harbor 401(k) Plan. Covered employees may elect to contribute a portion of their salaries to the plan. Discovery's matching contribution to the Plan is equal to 100% of the employee's elected deferrals up to a limit of 3% of the employee's compensation and an additional 50% of deferrals for the next 2% of the employee's compensation. Discovery made \$255,009 in contributions to the Plan during the year ended June 30, 2019.

Discovery also sponsors a 457(b) Deferred Compensation Plan for its Executive Director. Discovery contributes the maximum allowed to the Plan, as required by the Executive Director's contract. This contribution totaled \$19,000 during the year ended June 30, 2019. The plan's assets and liabilities reflected on the combined statement of financial position at June 30, 2019, totaled \$170,280. The plan's assets are fully invested in mutual funds, the cost of which approximates fair value at June 30, 2019.

## DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

### Notes to Combined Financial Statements

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#### Note 9. Commitments and Contingencies

##### State Funding

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

#### Note 10. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted by donors for specific programs, purposes, student activities, or to assist specific departments of Discovery. These restrictions are considered to expire when payments for restricted purposes are made. None of the net assets with donor restrictions are time-restricted by donors. Net assets with donor restrictions as of June 30, 2019 totaled \$71,846.

#### Note 11. Operating Leases

Discovery entered into an operating lease for the rental of its main school building payable to the JPPSS in the amount of \$107 per student per year. The lease was for five (5) years commencing on July 1, 2013 and ended on June 30, 2018. During June 2018, the lease was renewed for ten (10) years commencing on July 1, 2018 and ending on June 30, 2028. Future minimum commitments under the operating lease agreements are estimated to be \$247,170 at June 30, 2019.

Discovery entered into two operating leases as part of cooperative endeavor agreements with the City of Kenner for use of the Kenner Rivertown Exhibition Hall and the Westgate Playground Tennis Court. Both leases are effective until terminated. Both leases are at no charge, and; therefore, have no minimum lease payment obligation.

During March 2019, Discovery entered into an operating lease for the rental of another school building payable to the JPPSS in the amount of \$107 per student per year. The lease is for two (2) years commencing on July 1, 2019 and ending on June 30, 2021. Future minimum commitments under the operating lease agreements are not yet estimable.

## DISCOVERY HEALTH SCIENCES FOUNDATION, INC.

### Notes to Combined Financial Statements

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#### Note 12. Cooperative Endeavor Lease Agreement

Discovery entered into a cooperative endeavor lease agreement on November 23, 2016 at no charge to Discovery with the JPPSS onto which the JPPSS leased to Discovery, certain real property (land) for the purpose of constructing, developing, and operating on the land a public charter school facility, including infrastructure, parking, and other related facilities. Discovery has certain covenants regarding the construction and operations of the land on behalf of JPPSS. On May 12, 2017, Discovery sublet the land to Friends. The lease and sublease terms will run until October 31, 2115.

#### Note 13. Related Parties

Friends and Discovery entered into a facilities lease agreement dated November 1, 2018 pursuant to the loan agreement and Series 2018 bonds discussed in Note 6. The leased facilities are currently under construction on the land which is sublet by Friends from Discovery to be used as school facilities. The lease calls for payments to Friends in monthly amounts sufficient for Friends to make timely payments of principal and interest payments on the Series 2018 Bonds. Lease payments are scheduled to begin during August 2019 and run through June 2048.

Friends and Vanguard Modular Building Systems (Vanguard) entered into a lease agreement dated September 2, 2017, wherein Vanguard agreed to lease to Friends certain modular buildings (the Buildings). The Buildings are installed on the land and are sublet by Friends to Discovery to be used as school facilities. The lease between Friends and Discovery for the Buildings is for a term of 99 years and calls for monthly rent sufficient to cover the debt service and lease payment by Friends. Rent expense incurred by Discovery and earned by Friends as part of the sublease totaled \$369,290 during the year ended June 30, 2019. Prepaid rent by Discovery and deferred revenue for Friends under this sublease agreement total \$252,092 as of June 30, 2019 and are included in Due to/from Related Party on the combining statement of financial position.

Other amounts payable by Friends to Discovery total \$51,967 at June 30, 2019, and are included in Due to/from Related Party on the combining statement of financial position.

All intercompany activity has been eliminated on the combined financial statements.

#### Note 14. Subsequent Events

Management has evaluated subsequent events through the date that the combined financial statements were available to be issued, October 14, 2019, and determined that the following events occurred that require disclosure:

During August 2019, Discovery's board approved a memorandum of understanding to operate the DJOD charter school in partnership with Ochsner Health System.

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**

**Notes to Combined Financial Statements**

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**Note 14. Subsequent Events (Continued)**

No subsequent events occurring after this date have been evaluated for inclusion in these combined financial statements.

**SCHEDULES REQUIRED BY LOUISIANA STATE LAW  
(R.S. 24:514 - PERFORMANCE AND STATISTICAL DATA)**

## **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors  
Discovery Health Sciences Foundation, Inc.  
Kenner, Louisiana

We have performed the procedures enumerated below, which were agreed to by the management of Discovery Health Sciences Foundation, Inc. (Discovery), the Louisiana Department of Education, and the Louisiana Legislative Auditor (the specified parties), on the performance and statistical data accompanying the annual combined financial statements of Discovery for the fiscal year ended June 30, 2019, and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE) Bulletin, in compliance with Louisiana Revised Statute 24:514-1. Management of Discovery is responsible for its performance and statistical data. The sufficiency of these procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

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

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

Findings: None.

### 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 then traced a sample of 10 classes to the October 1 roll books for those classes and observed that the class was properly classified on the schedule.

Findings: None.

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

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

Findings: None.

### Public School Staff Data: Average Salaries (NO SCHEDULE)

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

Findings: None.

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

The purpose of this report is solely to describe the scope of testing performed on the performance and statistical data accompanying the annual combined financial statements of Discovery, 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.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation

Metairie, LA  
October 14, 2019

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Schedules Required by Louisiana State Law**  
**(R.S. 24:514 - Performance and Statistical Data)**  
**As of and for the Year Ended June 30, 2019**

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

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

**Schedule 2 - Class Size Characteristics**

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

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.  
 General Fund Instructional and Support Expenditures  
 and Certain Local Revenue Sources  
 For the Year Ended June 30, 2019**

**Schedule 1**

**General Fund Instructional and Equipment Expenditures**

**General Fund Instructional Expenditures**

**Teacher and Student Interaction Activities**

Classroom Teacher Salaries	\$ 4,241,566
Other Instructional Staff Salaries	1,313,585
Instructional Staff Employee Benefits	1,270,344
Purchased Professional and Technical Services	37,236
Instructional Materials and Supplies	384,485
Instructional Equipment	-

**Total Teacher and Student Interaction Activities** \$ 7,247,216

Other Instructional Activities 291,497

Pupil Support Services 770,079

Less: Equipment for Pupil Support Services -

**Net Pupil Support Services** 770,079

Instructional Staff Services 61,594

Less: Equipment for Instructional Staff Services -

**Net Instructional Staff Services** 61,594

School Administration 1,532,111

Less: Equipment for School Administration -

**Net School Administration** 1,532,111

**Total General Fund Instructional Expenditures** \$ 9,902,497

**Total General Fund Equipment Expenditures** \$ -

**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** \$ -

**Local Earnings on Investment in Real Property**

Earnings from 16 <sup>th</sup> Section Property	\$ -
Earnings from Other Real Property	-

**Total Local Earnings on Investment in Real Property** \$ -

**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** \$ -

Nonpublic Textbook Revenue \$ -

Nonpublic Transportation Revenue \$ -

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

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Class Size Characteristics**  
**As of October 1, 2018**

**Schedule 2**

<b>School Type</b>	<b>Class Size Range</b>							
	<b>1 - 20</b>		<b>21 - 26</b>		<b>27 - 33</b>		<b>34+</b>	
	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>
Combination	14%	45	70%	229	14%	47	2%	6
Combination Activity Classes	17%	8	56%	27	23%	11	4%	2

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

## **SUPPLEMENTARY INFORMATION**

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Schedule of Board of Directors**  
**For the Year Ended June 30, 2019**

<b>Board Members</b>	<b>Compensation</b>
Diane Hollis (Chair)	\$-0-
Lynda Nugent Smith (Vice Chair)	\$-0-
Wayne Thomas (Treasurer)	\$-0-
Joe Caldarera	\$-0-
Jim Hudson	\$-0-
Vinicio Madrigal	\$-0-
Jeanne Monte	\$-0-
Henry Shane	\$-0-
Allison Sharai	\$-0-
David Sherman	\$-0-
Ronnie Slone	\$-0-
Charles "Chuck" Toney, Jr.	\$-0-

See independent auditor's report.

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Schedule of Compensation, Benefits, and Other Payments**  
**to Agency Head**  
**For the Year Ended June 30, 2019**

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**Agency Head**  
 Dr. Patty Glaser, Chief Executive Officer

<b>Purpose</b>	<b>Amount</b>
Salary	\$215,634
Benefits - Insurance (FICA, Medicare, Health, Life, Disability)	\$5,040
Benefits - Retirement	\$7,973
Benefits - Deferred Compensation	\$24,366
Benefits - Other	\$18,879
Car Allowance	\$12,000
Cell Phone	\$480
Vehicle Provided by Government	\$0
Per Diem	\$0
Reimbursements	\$164
Travel	\$0
Registration Fees	\$0
Conference Travel	\$326
Continuing Professional Education Fees	\$0
Housing	\$0
Unvouchered Expenses	\$0
Special Meals	\$0

See independent auditor's report.

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Combining Statement of Financial Position**  
**June 30, 2019**

	Discovery Health Sciences Foundation, Inc.	Friends of Discovery Health Sciences Foundation, Inc.	Eliminations	Combined
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 2,430,488	\$ 3,581	\$ -	\$ 2,434,069
Restricted Cash	-	30,574,508	-	30,574,508
Accounts Receivable	310,992	-	-	310,992
Due from Related Party	304,059	-	(304,059)	-
Prepaid Expenses	154,568	249,436	-	404,004
<b>Total Current Assets</b>	<b>3,200,107</b>	<b>30,827,525</b>	<b>(304,059)</b>	<b>33,723,573</b>
<b>Property and Equipment, Net</b>	<b>714,554</b>	<b>19,750,174</b>	<b>-</b>	<b>20,464,728</b>
<b>Noncurrent Assets</b>				
Deposits	35,511	44,218	-	79,729
Deferred Compensation Investments	170,280	-	-	170,280
<b>Total Noncurrent Assets</b>	<b>205,791</b>	<b>44,218</b>	<b>-</b>	<b>250,009</b>
<b>Total Assets</b>	<b>\$ 4,120,452</b>	<b>\$ 50,621,917</b>	<b>\$ (304,059)</b>	<b>\$ 54,438,310</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts Payable and Accrued Expenses	\$ 164,791	\$ 5,752,203	\$ -	\$ 5,916,994
Accrued Salaries and Benefits	593,421	-	-	593,421
Obligations Under Capital Leases - Current Portion	143,357	195,396	-	338,753
Student Activity Liability	73,603	-	-	73,603
Due to Related Party	-	304,059	(304,059)	-
<b>Total Current Liabilities</b>	<b>975,172</b>	<b>6,251,658</b>	<b>(304,059)</b>	<b>6,922,771</b>
<b>Noncurrent Liabilities</b>				
Obligations Under Capital Leases - Noncurrent Portion	78,280	945,936	-	1,024,216
Bonds Payable	-	43,014,175	-	43,014,175
Retainage Payable	-	652,512	-	652,512
Deferred Compensation Liability	170,280	-	-	170,280
<b>Total Noncurrent Liabilities</b>	<b>248,560</b>	<b>44,612,623</b>	<b>-</b>	<b>44,861,183</b>
<b>Total Liabilities</b>	<b>1,223,732</b>	<b>50,864,281</b>	<b>(304,059)</b>	<b>51,783,954</b>
<b>Net Assets</b>				
Without Donor Restrictions	2,824,874	(242,364)	-	2,582,510
With Donor Restrictions	71,846	-	-	71,846
<b>Total Net Assets</b>	<b>2,896,720</b>	<b>(242,364)</b>	<b>-</b>	<b>2,654,356</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,120,452</b>	<b>\$ 50,621,917</b>	<b>\$ (304,059)</b>	<b>\$ 54,438,310</b>

See independent auditor's report.

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Combining Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2019**

	Discovery Health Sciences Foundation, Inc.			Friends of Discovery Health Sciences Foundation, Inc.			Eliminations			Combined		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
	<b>Revenues and Support</b>											
Per Pupil Support	\$ 14,209,015	\$ -	\$ 14,209,015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,209,015	\$ -	\$ 14,209,015
Federal Sources	1,317,098	-	1,317,098	-	-	-	-	-	-	1,317,098	-	1,317,098
Tuition	35,884	-	35,884	-	-	-	-	-	-	35,884	-	35,884
Fundraising Revenue	201,979	-	201,979	28,100	-	28,100	-	-	-	230,079	-	230,079
Contributions and Donations	42,349	77,382	119,731	5,100	-	5,100	-	-	-	47,449	77,382	124,831
Income from Meals	118,871	-	118,871	-	-	-	-	-	-	118,871	-	118,871
Student Activities and Fees	302,041	-	302,041	-	-	-	-	-	-	302,041	-	302,041
Rental Income	-	-	-	369,290	-	369,290	(369,290)	-	(369,290)	-	-	-
Interest Income	307	-	307	-	-	-	-	-	-	307	-	307
<b>Total Public Support and Other Revenues</b>	<b>16,227,544</b>	<b>77,382</b>	<b>16,304,926</b>	<b>402,490</b>	<b>-</b>	<b>402,490</b>	<b>(369,290)</b>	<b>-</b>	<b>(369,290)</b>	<b>16,260,744</b>	<b>77,382</b>	<b>16,338,126</b>
Net Assets Released from Restrictions	31,384	(31,384)	-	-	-	-	-	-	-	31,384	(31,384)	-
<b>Total Revenues and Support</b>	<b>16,258,928</b>	<b>45,998</b>	<b>16,304,926</b>	<b>402,490</b>	<b>-</b>	<b>402,490</b>	<b>(369,290)</b>	<b>-</b>	<b>(369,290)</b>	<b>16,292,128</b>	<b>45,998</b>	<b>16,338,126</b>
<b>Expenses</b>												
Program Services												
Student Instruction and Activities	8,099,158	-	8,099,158	-	-	-	-	-	-	8,099,158	-	8,099,158
Supporting Services												
Management and General	6,426,606	-	6,426,606	571,657	-	571,657	(369,290)	-	(369,290)	6,628,973	-	6,628,973
Fundraising	232,278	-	232,278	2,701	-	2,701	-	-	-	234,979	-	234,979
<b>Total Expenses</b>	<b>14,758,042</b>	<b>-</b>	<b>14,758,042</b>	<b>574,358</b>	<b>-</b>	<b>574,358</b>	<b>(369,290)</b>	<b>-</b>	<b>(369,290)</b>	<b>14,963,110</b>	<b>-</b>	<b>14,963,110</b>
<b>Change in Net Assets</b>	<b>1,500,886</b>	<b>45,998</b>	<b>1,546,884</b>	<b>(171,868)</b>	<b>-</b>	<b>(171,868)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,329,018</b>	<b>45,998</b>	<b>1,375,016</b>
<b>Net Assets, Beginning of Year</b>	<b>1,323,988</b>	<b>25,848</b>	<b>1,349,836</b>	<b>(70,496)</b>	<b>-</b>	<b>(70,496)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,253,492</b>	<b>25,848</b>	<b>1,279,340</b>
<b>Net Assets, End of Year</b>	<b>\$ 2,824,874</b>	<b>\$ 71,846</b>	<b>\$ 2,896,720</b>	<b>\$ (242,364)</b>	<b>\$ -</b>	<b>\$ (242,364)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,582,510</b>	<b>\$ 71,846</b>	<b>\$ 2,654,356</b>

See independent auditor's report.

**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**

Independent Auditor's Report

To the Board of Directors  
Discovery Health Sciences Foundation, Inc.  
Kenner, 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 combined financial statements of Discovery Health Sciences Foundation, Inc. (Discovery), which comprise the combined statement of financial position as of June 30, 2019, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 14, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the combined financial statements, we considered Discovery'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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Discovery's internal control. Accordingly, we do not express an opinion on the effectiveness of Discovery'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 over financial reporting 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. 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 Discovery's combined 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompany schedule of findings and questioned costs as items 2019-001 and 2019-002.

**Discovery's Response to Findings**

Discovery's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Discovery'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Discovery's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



A Professional Accounting Corporation

Metairie, LA  
October 14, 2019

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

Independent Auditor's Report

To the Board of Directors  
Discovery Health Sciences Foundation, Inc.  
Kenner, Louisiana

**Report on Compliance for Each Major Federal Program**

We have audited Discovery Health Sciences Foundation, Inc.'s (Discovery) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Discovery's major federal program for the year ended June 30, 2019. Discovery's major federal program is 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 the requirements 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 Discovery'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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Discovery'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 Discovery's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Discovery 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.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control Over Compliance**

Management of Discovery 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 Discovery's internal control over compliance with the types of requirements that could have a direct and material effect on its 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 Discovery's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaPorte".

A Professional Accounting Corporation

Metairie, LA  
October 14, 2019

**DISCOVERY HEALTH SCIENCES 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	Federal Expenditures
<b><u>United States Department Agriculture</u></b>			
Passed through the Louisiana Department of Agriculture			
Child Nutrition Cluster			
School Breakfast Program	10.553	Unknown	\$ 90,591
National School Lunch Program	10.555	Unknown	290,345
Total Child Nutrition Cluster			<u>380,936</u>
Child and Adult Care Food Program	10.558	Unknown	<u>2,477</u>
<b>Total United States Department of Agriculture</b>			<u>383,413</u>
<b><u>United States Department of Education</u></b>			
Passed through the Jefferson Parish Public School System			
Title I Grants to Local Education Agencies (LEAs)	84.010	S010A170018	155,804
Special Education - Grants to States (IDEA, Part B) *	84.027	H027A170033	410,648
Title III English Language Acquisition State Grants	84.365	S365A170018	1,616
Preschool Development Grants Program *	84.419B	Unknown	<u>354,347</u>
<b>Total United States Department of Education</b>			<u>922,415</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,305,828</u>

\* Denotes Major Program

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2019**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Discovery 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).

**Note 2. Indirect Cost Rate**

Discovery did not include any expenditures related to indirect cost rate calculations nor any 10% de minimis cost rate calculations in its schedule of expenditures of federal awards as there were no indirect cost rates utilized as part of the federal grant activity.

**Note 3. Federal Revenues not Considered Federal Awards**

Discovery recorded federal Medicaid revenues and related expense of \$11,270 that were not considered federal awards. As such, this amount was excluded from this schedule.

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2019**

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**Section I. Summary of Auditor's Results**

Financial Statements

- |                                                                                  |               |
|----------------------------------------------------------------------------------|---------------|
| 1) Type of auditor's report                                                      | Unmodified    |
| 2) Internal control over financial reporting and compliance and other matters    |               |
| a) Material weaknesses identified?                                               | No            |
| b) Significant deficiencies identified not considered to be material weaknesses? | None reported |
| c) Noncompliance noted?                                                          | Yes           |
| 3) Management letter comment provided?                                           | None          |

Federal Awards

- |                                                                                             |               |
|---------------------------------------------------------------------------------------------|---------------|
| 4) Internal control over major programs                                                     |               |
| a) Material weaknesses identified?                                                          | No            |
| b) Significant deficiencies identified not considered to be material weaknesses?            | None reported |
| 5) Type of auditor's report issued on compliance for major programs                         | Unmodified    |
| 6) Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)? | No            |
| 7) Identification of major programs                                                         |               |
| 84.027 - Special Education - Grants to States (IDEA, Part B)                                |               |
| 84.419B - Preschool Development Grants                                                      |               |
| 8) Dollar threshold used to distinguish between Type A and B programs                       | \$750,000     |
| 9) Auditee qualified as a low-risk auditee under Uniform Guidance?                          | No            |

**Section II. Internal Control Over Financial Reporting**

None.

**Section III. Findings and Questioned Costs Related to Major Federal Award Programs**

None.

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2019**

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**Section IV. Compliance and Other Matters**

**2019-001 Advance of Public Funds**

*Criteria:* Article 7, Section 14 of the Louisiana State Constitution of 1974 states that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

*Condition:* Funds were advanced by Discovery to Friends.

*Cause:* A modular building sublease agreement between Discovery and Friends called for a fixed monthly payment of \$16,500. Payments made from Discovery to Friends did not adhere to the fixed monthly payment prescribed in the agreement. Rather, payment amounts varied, and total payments were in excess of the terms of the sublease agreement. The advances in excess of the agreement were reported as prepaid rent or interfund loans receivable on the statement of financial position.

*Effect:* Based on discussion with the Louisiana Legislative Auditor, the advance of funds for the modular buildings in excess of the terms of the sublease agreement is potentially a violation of the above referenced statute.

*Recommendation:* We recommend that payments be made in accordance with agreed-upon terms and submitted when goods or services are transferred. We further recommend that the organization obtain a Louisiana Attorney General opinion on matters pertaining to the advance of these funds.

*Management's Response:* Note 2019-01 starts with the faulty premise that Article 7, Section 14 of the Louisiana Constitution applies to charter schools. Lease payments or advances made by Discovery to Friends cannot be a potential violation of Article 7, Section 14 of the Louisiana Constitution, because Article 7, Section 14 does not apply to charter schools like Discovery. The private non-profit corporations that are selected to operate charter schools in Louisiana are not a "state or any political subdivision" to which the prohibitions of Article 7, Section 14 apply. Even if these provisions were to apply to charter schools, the prohibition against the loan or donation of public funds is not absolute when there is a valid cooperative transaction that meets the criteria set forth by the Louisiana Supreme Court in the Cabela's case<sup>1</sup>. All funds were used by Friends in support of Discovery, and Discovery received a benefit of equal or greater value than the funds received. Such reciprocal transactions meet all the criteria of Cabela's.

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<sup>1</sup> Board of Directors of the Industrial Development Board of the City of Gonzales, Louisiana, Inc., v. All Taxpayers, Property Owners, et al. 938 So. 2d 11 (La.2006).

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2019**

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**Section IV. Compliance and Other Matters (Continued)**

**2019-001 Advance of Public Funds (Continued)**

*Management's  
Response  
(Continued):*

However, to begin, qualifying this as a gratuitous giving under Art. 7, Section 14 goes beyond the real issue. The funds advanced are misstated in the finding due to an error on Discovery's part. The amount of the sublease from Friends to Discovery for the required modular classroom space was always intended to cover the actual cost to Friends of leasing the modular buildings plus an administrative fee to cover additional expenses. The amount listed (\$16,500) was merely a placeholder in the original draft of the sublease. Unfortunately, in our haste to get the sublease finalized and move our students into the facility being provided by Friends, the amount was not changed to include the actual cost of the Friends lease on the modular buildings, which amounts to \$21,314 per month, plus actual administrative costs. Amending the sublease to the actual costs of providing the modular buildings will ensure that the amounts provided by Discovery to Friends are not above the amount in the sublease. This mistake should have been corrected once actual costs were determined. We will amend the sublease to correct this error.

**2019-002 Advance of Public Funds and Public Bid Law**

*Criteria:* Article 7, Section 14 of the Louisiana State Constitution of 1974 states that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private. Louisiana R.S. 17:3996 requires that public charter schools comply with Public Bid Law, R.S. 38:2211.

*Condition:* Funds were borrowed by Discovery and advanced to Friends to fund construction and architectural costs prior to bond closing.

*Cause:* Discovery borrowed funds from a bank under a line of credit agreement. These funds were subsequently advanced to Friends with no set terms or conditions. These advances were utilized by Friends for construction and architectural costs, the construction costs of which were not approved in a public bid process. The advances were tracked as interfund loans receivable on the statement of financial position. Discovery's principal balance of the line of credit agreement was paid off using Friends' bond proceeds.

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2019**

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**2019-002 Advance of Public Funds and Public Bid Law (Continued)**

*Effect:* Based on discussion with the Louisiana Legislative Auditor, the advance of public funds for the purpose of architectural and construction prior to bond closing by Friends is potentially a violation of the above referenced statutes. In effect, transfer of funds for the construction of a building may have violated Public Bid Law.

*Recommendation:* We recommend that management follow Public Bid Law, when applicable. We recommend that the organization obtain a Louisiana Attorney General opinion on matters pertaining to the advance of these funds and the organization's applicability and adherence to the above referenced statutes.

*Management's Response:* Neither Article 7, Section 14 of the Louisiana Constitution nor Louisiana Public Bid Law apply to the distribution of the funds identified in Note 2019-02. As stated in response to Note 2019-01, Article 7, Section 14 does not apply to charter schools. Further, Public Bid Law is not applicable to Friends, nor the architectural and pre-design services purchased by Friends.

As noted in the Louisiana Attorney General Opinions we obtained, Public Bid Law does not apply to Friends.<sup>2</sup> Friends is a private non-profit support organization and not a "public entity" as defined in La. R.S. 38:2211(A) that would be subject to the Louisiana Public Bid Law.

However, most importantly, even if it was determined that public bid law did apply there is no violation in these transactions as they were used for professional services that are not subject to the Louisiana Public Bid Law. In order to receive bond commission approval and in order to market bonds for the construction of a public charter school facility, the facility had to be completely designed and a guaranteed maximum cost established. The funds advanced by Discovery to Friends from proceeds of a Bridge Loan were for Architectural Services and pre-design services, which included surveys, soil testing and analysis, and test pilings. None of these were construction related rather they are all professional services required to enable the Architects (and their engineers) to fully plan the design of the new facility. This is the case whether it is perceived that Friends or Discovery paid for the services.<sup>3</sup> Funds for construction were funded from the bond proceeds received in accordance with Application L18-112A, which fully covers the construction of the project.

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<sup>2</sup> La. Atty Gen. Opinion 18-006; La. Atty Gen. Opinion 18-0128.

<sup>3</sup> The Public Bid Law does not apply to these agreements, no matter who is paying for the services. See *Am. Waste & Pollution Control Co. v. Madison Par. Police Jury*, 488 So. 2d 940, 944 (La. 1986), wherein the Louisiana Supreme Court noted that service contracts are not considered contracts for a public work, and thus, the provisions of the Public Bid Law are generally not applicable to such contracts. See also, *Zachary Mitigation Area, LLC v. Tangipahoa Par. Council*, 2016-1675 (La. App. 1 Cir 09/21/17), 231 So. 3d 687, 691.

**DISCOVERY HEALTH SCIENCES FOUNDATION, INC.**  
**Summary Schedule of Prior Year Findings**  
**For the Year Ended June 30, 2019**

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**Section II. Internal Control Over Financial Reporting**

None.

**Section III. Compliance and Other Matters**

None.

## **AGREED-UPON PROCEDURES REPORT**

Discovery Health Sciences Foundation, Inc.

Independent Accountant's Report  
on Applying Agreed-Upon Procedures

**For the Period of July 1, 2018 - June 30, 2019**

To Discovery Health Sciences Foundation, Inc. and  
the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Discovery Health Sciences Foundation, Inc., d/b/a Kenner Discovery Health Sciences Academy (Discovery) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal year July 1, 2018 through June 30, 2019. Discovery's management is responsible for those C/C areas identified in the SAUPs. 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.

Our procedures and results are as follows:

### ***Written Policies and Procedures***

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1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):
  - a) **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: No exceptions noted.

## **Collections**

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

Results: We obtained management's representation that the listing provided is complete.

3. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e., five collection locations for five deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:
  - a) Employees that are responsible for cash collections do not share cash drawers/registers.
  - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g., pre-numbered receipts) to the deposit.
  - 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.
  - d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, are not responsible for collecting cash, unless another employee verifies the reconciliation.

Results: Exceptions noted which were mitigated with compensating controls. As such, no exceptions noted.

We noted one (1) primary deposit and reconciliation site, which was the primary campus location. We noted that the employee responsible for collecting cash at the various campuses also prepares the deposit reconciliation and brings the deposit to the bank. We noted that the employee responsible for collecting cash does not record the transaction or reconcile the bank account. We noted that, although the person who collects cash also deposits the cash, the money is totaled and receipted by the individual teachers before the collection person obtains the money. There is also a security camera located at the collection point. We noted that Discovery does not have any formal cash registers or drawers but utilizes envelope safes and lock boxes which can be accessed by the primary employee responsible for collecting cash and the CFO. Discovery has a formal process to reconcile cash collections to the general ledger, primarily through bank reconciliations performed by a person who is not responsible for cash collections.

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

Results: We noted that all employees, including those responsible for collecting cash, are insured through a commercial crime policy.

5. Randomly select two deposit dates for five bank accounts (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:
  - a) Observe that receipts are sequentially pre-numbered.
  - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
  - c) Trace the deposit slip total to the actual deposit per the bank statement.
  - d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).
  - e) Trace the actual deposit per the bank statement to the general ledger.

Results: As Discovery is a charter school, its major sources of revenues are monthly Minimum Foundation Program payments and grant reimbursements. Discovery receives all such public funds via ACH transfer. Discovery noted no public funds that were received as cash during the fiscal year. As such, there were no transactions selected for testing.

### ***Ethics***

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6. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials from this listing and obtain ethics documentation from management, and:
  - a) Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
  - b) Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Results: No exceptions noted.

### ***Debt Service***

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

Results: No exceptions noted.

8. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

Results: No exceptions noted.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to perform, and did not perform, 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 results of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.



A Professional Accounting Corporation

Covington, LA  
October 21, 2019