

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

AUDITED FINANCIAL STATEMENTS  
June 30, 2018 and 2017



TWRU

*CPAs & Financial Advisors*

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Kids' Orchestra, Inc.  
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Kids' Orchestra, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. 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 Kids' Orchestra, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of compensation, reimbursements, benefits, and other payments to agency head, political subdivision head, or chief executive officer, as required by Louisiana Revised Statute 24:513(A)(3), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of Kids' Orchestra Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Kids' Orchestra, Inc.'s internal control over financial reporting and compliance.

TWRU

CPAs & Financial Advisors  
Baton Rouge, Louisiana  
December 26, 2018



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KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

STATEMENT OF FINANCIAL POSITION  
June 30, 2018 and 2017

## ASSETS

|  | <u>2018</u>       | <u>2017</u>       |
|--|-------------------|-------------------|
| UNRESTRICTED CURRENT ASSETS:                             |                   |                   |
| Cash and Cash Equivalents                                | \$ 13,046         | \$ 40,765         |
| Accounts Receivable                                      | 70,229            | 85,307            |
| Pledges Receivable, Current Portion, Net of Allowance    | 25,000            | 20,260            |
| Prepaid Expenses   | <u>1,520</u>      | <u>-</u>          |
| TOTAL UNRESTRICTED CURRENT ASSETS                        | 109,795           | 146,332           |
| PROPERTY AND EQUIPMENT:                                  |                   |                   |
| Leasehold Improvements                                   | 38,936            | 38,936            |
| Furniture and Equipment                                  | 31,999            | 29,169            |
| Music Equipment  | <u>150,323</u>    | <u>133,247</u>    |
| TOTAL PROPERTY AND EQUIPMENT                             | 221,258           | 201,352           |
| Less Accumulated Depreciation                            | <u>(138,747)</u>  | <u>(100,656)</u>  |
| NET PROPERTY AND EQUIPMENT                               | <u>82,511</u>     | <u>100,696</u>    |
| OTHER ASSETS   |                   |                   |
| Pledges Receivable, Noncurrent Portion, Net of Allowance | <u>31,961</u>     | <u>51,802</u>     |
| TOTAL ASSETS   | <u>\$ 224,267</u> | <u>\$ 298,830</u> |
| LIABILITIES AND NET ASSETS                               |                   |                   |
| LIABILITIES:   |                   |                   |
| Accounts Payable   | \$ 40,447         | \$ 7,515          |
| Deferred Revenue   | -                 | 46,326            |
| Payroll Liabilities                                      | 29,563            | 15,904            |
| Due to Affiliates  | <u>9,265</u>      | <u>60,752</u>     |
| TOTAL LIABILITIES (ALL CURRENT)                          | 79,275            | 130,497           |
| NET ASSETS:  |                   |                   |
| Unrestricted   | 113,031           | 116,531           |
| Temporarily Restricted                                   | <u>31,961</u>     | <u>51,802</u>     |
| TOTAL NET ASSETS   | <u>144,992</u>    | <u>168,333</u>    |
| TOTAL LIABILITIES AND NET ASSETS                         | <u>\$ 224,267</u> | <u>\$ 298,830</u> |

See Accompanying Notes to the Financial Statements

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

STATEMENT OF ACTIVITIES  
For the Years Ended June 30, 2018 and 2017

| CHANGES IN UNRESTRICTED NET ASSETS                              | 2018          | 2017          |
|---|---------------|---------------|
| Unrestricted Revenues   |               |               |
| Contract Revenue  | \$ 168,000    | \$ -          |
| Corporate Contributions   | 614,142       | 470,158       |
| Foundation Contributions  | 172,419       | 106,047       |
| Individual Contributions  | 55,074        | 57,270        |
| In-Kind Contributions   | 20,000        | -             |
| Other Contributions   | 8,596         | 38,312        |
| Student Dues  | 94,949        | 134,783       |
| State Grant   | 398,503       | 401,357       |
| <br>TOTAL UNRESTRICTED REVENUE                                  | <br>1,531,683 | <br>1,207,927 |
| Expenses  |               |               |
| Program Expenses  | 1,143,161     | 878,079       |
| Management and General Expenses                                 | 220,420       | 146,481       |
| Fundraising Expenses  | 154,394       | 166,135       |
| <br>TOTAL EXPENSES  | <br>1,517,975 | <br>1,190,695 |
| Other Income (Expenses)   |               |               |
| Interest Income   | 42            | 23            |
| Depreciation Expense  | (38,090)      | (35,267)      |
| <br>TOTAL OTHER EXPENSES  | <br>(38,048)  | <br>(35,244)  |
| Released from restrictions                                      | 25,000        | 20,260        |
| <br>INCREASE IN UNRESTRICTED NET ASSETS                         | <br>660       | <br>2,248     |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS                    |               |               |
| Pledges Receivable  | 999           | 72,062        |
| Net Assets Released from Restrictions                           | (25,000)      | (20,260)      |
| <br>(DECREASE) INCREASE IN TEMPORARILY<br>RESTRICTED NET ASSETS | <br>(24,001)  | <br>51,802    |
| <br>(DECREASE) INCREASE IN NET ASSETS                           | <br>(23,341)  | <br>54,050    |
| NET ASSETS, BEGINNING OF YEAR                                   | 168,333       | 114,283       |
| NET ASSETS, END OF YEAR   | \$ 144,992    | \$ 168,333    |

See Accompanying Notes to the Financial Statements



KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

STATEMENT OF FUNCTIONAL EXPENSES  
For the Years Ended June 30, 2018 and 2017

|                                  | 2018                |                           |                   |                     |
|----------------------------------|---------------------|---------------------------|-------------------|---------------------|
|                                  | Program             | Management<br>and General | Fundraising       | Total               |
| EXPENSES:                        |                     |                           |                   |                     |
| Advertising                      | \$ -                | \$ -                      | \$ 19,717         | \$ 19,717           |
| Auto                             | 4,844               | 1,946                     | 642               | 7,432               |
| Contract Labor                   | 432,096             | -                         | 3,440             | 435,536             |
| Dues and Subscriptions           | 3,043               | 3,785                     | 2,198             | 9,026               |
| Education and Seminars           | 21,423              | 365                       | 4,670             | 26,458              |
| Employee Benefits                | 4,950               | 4,384                     | 1,090             | 10,424              |
| Fundraising Expenses             | -                   | -                         | 6,623             | 6,623               |
| Insurance                        | 51,903              | 20,235                    | 11,915            | 84,053              |
| Materials                        | 23,653              | -                         | -                 | 23,653              |
| Meals                            | -                   | 2,896                     | 397               | 3,293               |
| Meetings and Conferences         | -                   | 2,804                     | 765               | 3,569               |
| Occupancy Costs                  | -                   | 26,944                    | -                 | 26,944              |
| Office Expenses                  | -                   | 4,369                     | -                 | 4,369               |
| Orchestra Costs                  | 7,716               | -                         | -                 | 7,716               |
| Other Expenses                   | 136,708             | 31,850                    | -                 | 168,558             |
| Payroll Taxes                    | 22,511              | 6,130                     | 5,622             | 34,263              |
| Professional Fees                | 19,375              | 19,219                    | -                 | 38,594              |
| Postage and Printing             | 10,117              | 491                       | 2,798             | 13,406              |
| Photography and Video            | -                   | -                         | 16,000            | 16,000              |
| Repairs                          | 6,147               | -                         | -                 | 6,147               |
| Salaries                         | 296,280             | 81,115                    | 78,414            | 455,809             |
| Storage                          | 1,677               | -                         | -                 | 1,677               |
| Telephone                        | -                   | 13,561                    | -                 | 13,561              |
| Transportation                   | 100,718             | -                         | -                 | 100,718             |
| Website                          | -                   | 326                       | 103               | 429                 |
| <b>TOTAL FUNCTIONAL EXPENSES</b> | <b>\$ 1,143,161</b> | <b>\$ 220,420</b>         | <b>\$ 154,394</b> | <b>\$ 1,517,975</b> |

See Accompanying Notes to the Financial Statements



|                                  | 2017                     |                                   |                          |                            |
|----------------------------------|--------------------------|-----------------------------------|--------------------------|----------------------------|
|                                  | <u>Program</u>           | <u>Management<br/>and General</u> | <u>Fundraising</u>       | <u>Total</u>               |
| <b>EXPENSES:</b>                 |                          |                                   |                          |                            |
| Advertising                      | \$ 1,057                 | \$ 65                             | \$ 893                   | \$ 2,015                   |
| Auto                             | 4,816                    | 1,115                             | 228                      | 6,159                      |
| Contract Labor                   | 361,263                  | -                                 | 10,195                   | 371,458                    |
| Dues and Subscriptions           | 3,320                    | 594                               | 1,281                    | 5,195                      |
| Education and Seminars           | 12,844                   | -                                 | 806                      | 13,650                     |
| Employee Benefits                | 251                      | 1,050                             | 137                      | 1,438                      |
| Fundraising Expenses             | -                        | -                                 | 15,327                   | 15,327                     |
| Insurance                        | 42,143                   | 12,635                            | 10,003                   | 64,781                     |
| Materials                        | 24,255                   | -                                 | -                        | 24,255                     |
| Meals and Entertainment          | -                        | 4,161                             | 311                      | 4,472                      |
| Meetings and Conferences         | -                        | 275                               | 635                      | 910                        |
| Occupancy Costs                  | -                        | 16,006                            | -                        | 16,006                     |
| Office Expenses                  | -                        | 14,040                            | -                        | 14,040                     |
| Orchestra Costs                  | 7,930                    | -                                 | -                        | 7,930                      |
| Other Expenses                   | 19,869                   | 7,228                             | -                        | 27,097                     |
| Payroll Taxes                    | 19,551                   | 5,483                             | 7,684                    | 32,718                     |
| Professional Fees                | 15,125                   | 8,147                             | -                        | 23,272                     |
| Postage and Printing             | 4,701                    | 528                               | 10,445                   | 15,674                     |
| Photography and Video            | -                        | -                                 | 1,214                    | 1,214                      |
| Instrument Repairs               | 4,436                    | -                                 | -                        | 4,436                      |
| Salaries                         | 260,716                  | 68,659                            | 106,947                  | 436,322                    |
| Storage                          | 3,177                    | -                                 | -                        | 3,177                      |
| Taxes and Licenses               | -                        | -                                 | -                        | -                          |
| Telephone                        | -                        | 5,117                             | -                        | 5,117                      |
| Transportation                   | 92,625                   | -                                 | -                        | 92,625                     |
| Website                          | -                        | 1,378                             | 29                       | 1,407                      |
| <b>TOTAL FUNCTIONAL EXPENSES</b> | <b><u>\$ 878,079</u></b> | <b><u>\$ 146,481</u></b>          | <b><u>\$ 166,135</u></b> | <b><u>\$ 1,190,695</u></b> |

See Accompanying Notes to the Financial Statements

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS  
For the Years Ended June 30, 2018 and 2017

|   | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                |                  |                  |
| Change in Net Assets  | \$ (23,341)      | \$ 54,050        |
| Adjustments to Reconcile Change in Net Assets to Net Cash   |                  |                  |
| <b>Provided by Operating Activities:</b>                    |                  |                  |
| Depreciation  | 38,091           | 35,267           |
| Amortization of Discount on Pledges Receivable              | 999              | -                |
| <b>Decrease (Increase) in Assets:</b>                       |                  |                  |
| Accounts Receivable   | 15,078           | (85,307)         |
| Prepaid Expenses  | (1,520)          | 62               |
| Current Pledges Receivable, net                             | (4,740)          | (20,260)         |
| <b>Increase (Decrease) in Liabilities:</b>                  |                  |                  |
| Accounts Payable  | 32,932           | (5,413)          |
| Deferred Revenue  | (46,326)         | 46,326           |
| Payroll Liabilities   | 13,659           | 6,020            |
| Due to Affiliates   | (51,487)         | 60,752           |
| <b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>     | <u>(26,655)</u>  | <u>91,497</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                |                  |                  |
| Purchases of Furniture and Equipment                        | (2,830)          | (3,730)          |
| Purchases of Music Equipment                                | <u>(17,076)</u>  | <u>(14,924)</u>  |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>                | <u>(19,906)</u>  | <u>(18,654)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |                  |                  |
| Decreases (Increases) in Long Term Pledges Receivable       | <u>18,842</u>    | <u>(51,802)</u>  |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>     | <u>18,842</u>    | <u>(51,802)</u>  |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> | (27,719)         | 21,041           |
| <b>BEGINNING CASH AND CASH EQUIVALENTS</b>                  | <u>40,765</u>    | <u>19,724</u>    |
| <b>ENDING CASH AND CASH EQUIVALENTS</b>                     | <u>\$ 13,046</u> | <u>\$ 40,765</u> |

See Accompanying Notes to the Financial Statements

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business – The Kids' Orchestra, Inc. (the Organization) is a not-for-profit entity that was organized for the purpose of providing music education, instruments, and leadership development and performance opportunities to kindergarten through fifth grade students of all races, cultures, and backgrounds.

Program and Supporting Services - The Organization receives most of its income from corporate contributions and a grant from the State of Louisiana. The Organization also receives contributions from foundations and individuals.

Basis of Accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation – The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are resources that are free of donor-imposed or time restrictions and are available at the directions of the governing board. Temporarily restricted assets are resources that are limited by donor-imposed stipulations that either expires by passage of time or can be fulfilled and removed by specific action pursuant to those stipulations. Permanently restricted assets are those resources whose use is limited to donor-imposed stipulations that neither expires by passage of time nor can be fulfilled or otherwise removed by specific action. The Organization did not have any permanently restricted assets as of June 30, 2018 and 2017. Temporarily restricted assets as of June 30, 2018 and 2017 are the long term pledges receivable.

Revenue Recognition – The Organization accounts for all income sources as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Cash and Cash Equivalents – For purposes of the statement of cash flows, management considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Promises to Give – Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use until after the due date. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment – Property and equipment are stated at cost. Expenditures for additions, renewals and betterments are capitalized; expenditures for maintenance and repairs are charged to expenses as incurred. Upon retirement or disposal of assets, the costs and accumulated depreciation or amortization are removed from the accounts and any gain or loss is included in income. Depreciation expense for the years ended June 30, 2018 and 2017 was \$38,090 and \$35,267, respectively.

Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets.

|                         |            |
|-------------------------|------------|
| Building                | 39 Years   |
| Furniture and Fixtures  | 5-7 Years  |
| Machinery and Equipment | 5-10 Years |

Income Taxes – The Organization has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made; however, if the Organization should engage in activities unrelated to the purpose for which it was created, taxable income could result. The Organization has no unrelated business income for the years ended June 30, 2018 and 2017.

Concentration of Support – For the years ended June 30, 2018 and 2017, the Organization received approximately 38% and 37%, respectively, of its annual revenues from corporate contributions. For the years ended June 30, 2018 and 2017, the Organization received 96% of its corporate contributions from related parties (see Note 2).

For the year ended June 30, 2018 and 2017, the Organization received approximately 26% and 33% of its annual revenue, respectively from a grant from the State of Louisiana Department of Education.

Advertising – The Organization expenses advertising costs as they are incurred. The Organization had \$19,717 and \$2,015 in advertising expense for the years ended June 30, 2018 and 2017, respectively.

Expense Allocation – Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Deferred Revenue – Income from unearned revenue is deferred and recognized over the periods to which the revenue relates.

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

NOTE 2: RELATED PARTY TRANSACTIONS

The Organization and The Powell Group, Inc. (Powell) are affiliated organizations through common management. Both organizations share common accounting personnel. The Organization reimburses Powell for insurance, office expenses, employee benefit costs, and other expenses. For the years ended June 30, 2018 and 2017, the Organization incurred \$139,998 and \$128,664, respectively, in expenses paid by Powell. The Organization reimbursed Powell \$191,485 and \$67,912 during the year ended June 30, 2018 and 2017, respectively. The Organization owed Powell \$9,265 and \$60,752 at June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, the Organization reimbursed an affiliated organization \$14,780 and \$6,160 for advertising, respectively.



KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

NOTE 2: RELATED PARTY TRANSACTIONS (CONTINUED)

The Organization is affiliated with numerous other organizations through common management, common board of directors, and accounting personnel. For the years ended June 30, 2018 and 2017, affiliated organizations contributed \$615,000 and \$450,000, respectively.

NOTE 3: EMPLOYEE BENEFIT PLAN

The Organization provides a defined contribution employee benefit plan qualifying under Internal Revenue Code Section 401(a). To participate in the plan, employees must work full-time and must have provided one year of service. Employees may elect to contribute a portion of their base salary on a pre-tax basis. Company contributions to the plan are discretionary. The Organization contributed \$10,424 and \$1,438 to the plan for the years ended June 30, 2018 and 2017, respectively.

NOTE 4: OPERATING LEASES

The Organization maintains a five year operating lease for a copy machine beginning on June 19, 2014 and ending on June 19, 2019. The monthly lease payment is \$184 plus additional usage charges. For the years ended June 30, 2018 and 2017, rent expense was \$4,141 and \$6,028, respectively. Future minimum payments for the next two years are \$2,210 a year.

The Organization entered into a two year lease for the use of a building beginning on August 1, 2017 and ending on August 31, 2019, that may be renewed upon agreement by both parties but does not renew automatically. For the years ended June 30, 2018 and 2017, rent expense was \$18,000 and \$0, respectively. Future minimum payments for the next year is \$18,000.

NOTE 5: INCOME TAXES

The Organization follows FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of June 30, 2018 and 2017, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. No interest and penalties were recorded during the years ended June 30, 2018 and 2017. Generally, the tax years before 2015 are no longer subject to examination by federal, state, or local taxing authorities.

NOTE 6: PLEDGE RECEIVABLE

Pledges receivable are unconditional promises to pay certain amounts in the future. Management believes that the pledges will be collected in full therefore no allowance for uncollectible receivable has been recorded. Pledges due beyond one year have been discounted at an annual rate of 1.38% for 3 year pledges and 1.72% for 5 year pledges received in 2017. Pledges receivable consists of the following:

|   | <u>2018</u>      | <u>2017</u>      |
|---|------------------|------------------|
| Pledges Receivable                      | \$ 59,000        | \$ 75,100        |
| Less:                                   |                  |                  |
| Discount for Future Payments            | <u>(2,039)</u>   | <u>(3,038)</u>   |
| Pledges Receivable, net                 | <u>\$ 56,961</u> | <u>\$ 72,062</u> |
| <br>                                    |                  |                  |
| Pledges Receivable in One Year          | \$ 25,000        | \$ 20,260        |
| Pledges Receivable in One to Five Years | <u>31,961</u>    | <u>51,802</u>    |
|   | <u>\$ 56,961</u> | <u>\$ 72,062</u> |

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017

NOTE 7: SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through December 26, 2018, the date the financial statements were available to be issued.

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

SCHEDULE OF COMPENSATION, REIMBURSEMENTS, BENEFITS, AND OTHER PAYMENTS TO AGENCY  
HEAD, POLITICAL SUBDIVISION HEAD, OR CHIEF EXECUTIVE OFFICER

June 30, 2018 and 2017

No compensation, reimbursements, or benefits were provided to the agency head using public funds for the years ended June 30, 2018 and 2017.



**TWRU**  
CPAs & Financial Advisors

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Kids' Orchestra, Inc.  
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kids' Orchestra, Inc. (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2018.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kids' Orchestra, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kids' Orchestra, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Kids' Orchestra, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this Report

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

**TWRU**

CPAs & Financial Advisors  
Baton Rouge, Louisiana  
December 26, 2018

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2018

**Current Year Findings**

There were no findings for the year ended June 30, 2018.

**Prior Year Findings**

There were no findings for the year ended June 30, 2017.



INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of Kids' Orchestra, Inc. and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Kids' Orchestra, Inc. (Entity) 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 period July 1, 2017 through June 30, 2018. The Entity's management is responsible for those C/C areas identified in the SAUPs.

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

The procedures and associated findings 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) **Budgeting**, including preparing, adopting, monitoring, and amending the budget  
*No Exceptions Noted.*
  - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.  
*No Exceptions Noted.*
  - c) **Disbursements**, including processing, reviewing, and approving  
*No Exceptions Noted.*
  - d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).  
*Exception:* The policies did not address the completeness of collections.  
*Management's Response/Corrective Action:* The executive director will start logging in collections, numbering them and keeping copies before sending to the accounting department for deposit.
  - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

*Exception:* Policy does not address reviewing and approving attendance, leave, and overtime.

*Management's Response/Corrective Action:* Management will add these processes to the policies.

- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process

*Exception:* Policy does not address points 2 through 5.

*Management's Response/Corrective Action:* Management will add these processes to the policies.

- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)

*No Exceptions Noted.*

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

*No Exceptions Noted.*

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

*Not Applicable.*

- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

*Not Applicable.*

#### **Board or Finance Committee**

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2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

- a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

*Exception:* The board met three times during the fiscal year

*Management's Response/Corrective Action:* Management will state their frequency of meeting in the bylaws.

- b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.

*No Exceptions Noted.*



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

*Not Applicable.*

### **Bank Reconciliations**

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3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:
- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);  
*No Exceptions Noted.*
- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and  
*Exception:* Bank reconciliations did not include evidence of review by management or board member.  
*Management's Response/Corrective Action:* The controller will date and sign off on the bank recs when he is reviewing them.
- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.  
*Exception:* No documentation of management research of reconciling items outstanding for more than twelve months. Outstanding items totaled less than \$200.  
*Management's Response/Corrective Action:* The controller reviews the outstanding checks monthly already. He will start noting the date and initial when this is done.

### **Collections**

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4. 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 5 deposit sites (or all deposit sites if less than 5).  
*No Exceptions Noted.*
5. 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. 5 collection locations for 5 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.

*No Exceptions Noted.*

- 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.

*No Exceptions Noted.*

- 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.

*No Exceptions Noted.*

- 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.

*No Exceptions Noted.*

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

*No Exceptions Noted.*

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (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.

*Exception:* The entity does not use sequentially pre numbered receipts.

*Management's Response/Corrective Action:* The executive director will start logging in receipts when they come in and the log will be pre numbered.

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

*No Exceptions Noted.*

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

*No Exceptions Noted.*

- 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).

*Exception:* There was no documentation of collection date to compare to the deposit date.



**Management's Response/Corrective Action:** The collections and receipt log that they will start using will also record the date the income is received.

- e) Trace the actual deposit per the bank statement to the general ledger.  
*No Exceptions Noted.*

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

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- 8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

*No Exceptions Noted.*

- 9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

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

*No Exceptions Noted.*

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

*No Exceptions Noted.*

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

**Exception:** The employee who processes payments is not prohibited from adding/modifying vendor files.

**Management's Response/Corrective Action:** The controller will start adding the new vendors and make changes.

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

*No Exceptions Noted.*

- 10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

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

*No Exceptions Noted.*

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

*No Exceptions Noted.*



### **Credit Cards/Debit Cards/Fuel Cards/P-Cards**

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11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

*No Exceptions Noted.*

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]]

*No Exceptions Noted.*

- b) Observe that finance charges and late fees were not assessed on the selected statements.

*No Exceptions Noted.*

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

*Exception:* None of the meals had documentation of the individuals participating.

*Management's Response/Corrective Action:* Management will start documenting the required information on the receipts.

### **Travel and Travel-Related Expense Reimbursements (excluding card transactions)**

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14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)).

*Not Applicable.*



- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

*Not Applicable.*

- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

*Not Applicable.*

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

*Not Applicable.*

### **Contracts**

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15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

*Not Applicable.*

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

*Not Applicable.*

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

*Not Applicable.*

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

*Exception:* One of the invoices we tested was lower than the contracted rate due to an error in the vendor's performance.

*Management's Response/Corrective Action:* In the future, management will request an updated invoice from the vendor.

### **Payroll and Personnel**

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16. 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, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.



*No Exceptions Noted.*

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

*Exception:* Salaried employees do not document daily attendance.

*Management's Response/Corrective Action:* Salaried employees will start documenting daily attendance.

- b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

*Exception:* Salaried employees do not document daily attendance.

*Management's Response/Corrective Action:* Salaried employees will start documenting daily attendance.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

*No Exceptions Noted.*

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

*No Exceptions Noted.*

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

*No Exceptions Noted.*

**Ethics**

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20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above, 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.

*Not Applicable.*

- 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.



*Not Applicable.*

#### **Debt Service**

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21. 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.

*Not Applicable.*

22. 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.

*Not Applicable.*

#### **Other**

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

*Not Applicable.*

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

*No Exceptions Noted.*

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

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

**TWRU**

CPAs & Financial Advisors  
Baton Rouge, Louisiana  
December 26, 2018

