

**LITERACY COUNCIL
OF SOUTHWEST LOUISIANA, INC.
Lake Charles, Louisiana**

**FINANCIAL STATEMENTS
December 31, 2017**

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.

Lake Charles, Louisiana

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STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

4827 IHLES ROAD
P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Literacy Council of Southwest Louisiana, Inc.
Lake Charles, Louisiana

Report on the Financial Statements

I have audited the accompanying financial statements of Literacy Council of Southwest Louisiana, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Literacy Council of Southwest Louisiana, Inc. as of December 31, 2017, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, I have also issued my report dated June 29, 2018, on my consideration of Literacy Council of Southwest Louisiana, Inc.'s internal control over financial reporting and on my 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 my 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 Literacy Council of Southwest Louisiana, Inc.'s internal control over financial reporting and compliance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits and Other Payments to Executive Director 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
June 29, 2018

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 102,439
Unconditional promises to give	65,634
Grants receivable	38,896
Prepaid expenses	7,235
Total current assets	<u>214,204</u>

PROPERTY AND EQUIPMENT

Equipment	124,855
Leasehold improvements	4,051
	<u>128,906</u>
Less accumulated depreciation	<u>(121,694)</u>
	7,212
Land	5,788
Net property and equipment	<u>13,000</u>

OTHER ASSETS

Inventory	<u>53,221</u>
Total assets	<u>\$ 280,425</u>

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF FINANCIAL POSITION (Continued)
December 31, 2017

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 5,952
Accrued expenses	<u>26,767</u>
Total current liabilities	<u>32,719</u>
Total liabilities	<u>32,719</u>

NET ASSETS

Unrestricted	
Board designated	5,502
Net investment in property and equipment	13,000
Undesignated	<u>121,909</u>
Total unrestricted net assets	<u>140,411</u>
Temporarily restricted	<u>107,295</u>
Total net assets	<u>247,706</u>
Total liabilities and net assets	<u>\$ 280,425</u>

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF ACTIVITIES AND NET ASSETS
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT			
United Way of Southwest Louisiana	\$ 65,634	\$ 65,634	\$ 131,268
Federal and State Grants	599,767	-	599,767
Contributions and Private Grants	12,628	41,661	54,289
Interest income	2	-	2
Program fees	33,366	-	33,366
Fund raising	44,416	-	44,416
Total revenues and gains	755,813	107,295	863,108
Net assets released from restrictions	70,789	(70,789)	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	826,602	36,506	863,108
EXPENSES			
Program services	761,983	-	761,983
Management and general	50,875	-	50,875
Fund raising	44,767	-	44,767
TOTAL EXPENSES	857,625	-	857,625
CHANGE IN NET ASSETS	(31,023)	36,506	5,483
NET ASSETS AT BEGINNING OF YEAR	171,434	70,789	242,223
NET ASSETS AT END OF YEAR	\$ 140,411	\$ 107,295	\$ 247,706

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2017

Cash Flows From Operating Activities	
Cash received from Federal and State Grants	\$ 613,790
Cash received from Private Grants, Contracts, and Contributions	268,494
Cash paid to Suppliers and Employees	<u>(854,484)</u>
Net Cash Provided (Used) By Operating Activities	<u>27,800</u>
Cash Flows From Investing Activities	
Interest received	<u>2</u>
Net Cash Provided (Used) By Investing Activities	<u>2</u>
Net Increase (Decrease) In Cash	27,802
Cash - Beginning of Year	<u>74,637</u>
Cash - End of Year	<u><u>\$ 102,439</u></u>
Cash Flows From Operating Activities	
Increase (decrease) in net assets	\$ 1,105
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation expense	3,762
Interest income	(2)
(Increase) decrease in operating assets:	
Grants and unconditional promises to give	19,178
Prepaid expenses	409
Increase (decrease) in operating liabilities:	
Accounts payable	(439)
Accrued expense	<u>3,788</u>
Total Adjustments	<u>26,696</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 27,800</u>

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2017

	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Advertising	\$ 252	\$ -	\$ -	\$ 252
Computer expenses/technology	829	45	27	901
Depreciation	3,461	188	113	3,762
Dues	1,230	67	40	1,337
Education and testing fees	12,654	-	-	12,654
Insurance - other	11,891	646	388	12,925
Interest expense	743	40	24	808
Miscellaneous	560	845	-	1,405
Office expense	39,232	2,132	1,279	42,643
Office occupancy	30,864	1,677	1,006	33,548
Payroll taxes	41,880	2,276	1,366	45,522
Postage	486	26	16	528
Professional fees	-	9,350	-	9,350
Salaries and wages	550,545	29,921	17,953	598,418
Employee benefits	40,956	2,226	1,336	44,517
Telephone	3,808	207	124	4,139
Travel	3,451	188	113	3,751
Fundraising expenses	-	-	20,359	20,359
Training and conferences	19,142	1,040	624	20,806
Total expenses	\$ 761,983	\$ 50,875	\$ 44,767	\$ 857,625

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

The Literacy Council of Southwest Louisiana, Inc. was organized under Section 501(c)(3) of the Internal Revenue Code as a nonprofit organization for the purpose of providing tutoring to the illiterate. The Council operates under a Board of Directors, which appoints an Executive Director and otherwise controls and guides the Council.

The United Way of Southwest Louisiana, Inc., federal and state grants, and private contributions provided the majority of the funding for the Council's 2017 programs.

The Council follows the standards of accounting and financial reporting for voluntary health and welfare agencies prescribed by the American Institute of Certified Public Accountants. The following significant accounting policies are in accordance with these standards.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U. S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Financial Statement Presentation:

The Council has adopted Financial Accounting Standards Board (FASB) ASC 958 (formally SFAS No. 117), *Not-for Profit Entities*. Under FASB ASC 958-205-05-6, the Council is required to report information regarding its financial position and activities according to three classes of net assets: permanently restricted, temporarily restricted, and unrestricted net assets. As permitted by the codification, the Council does not use fund accounting.

Unrestricted net assets are not subject to donor-imposed stipulations and are composed of the following:

Undesignated: Net assets that are available for the various programs and administration of the Council.

Board Designated: Net assets that are established by the Board and represent unrestricted funds that have been set aside for future operations.

Net Investment in Property and Equipment: Net assets that represent amounts expended for property and equipment used in the operations of the Council, net of amounts borrowed, if any.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation:

Temporarily restricted net assets consist of donor-restricted contributions. Amounts restricted by the donor, grantor or other outside party for a particular purpose or for a particular period are recognized as revenue when the promise to give is received and such amounts are reported as temporarily restricted net assets. When a donor 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. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Permanently restricted net assets are those net assets subject to donor-imposed stipulations that the Council maintains them permanently. Generally, the donors of these assets permit the Council to use all or part of the income earned on any related investments for general or specific purposes.

Estimates:

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

Contributions:

The council has also adopted FASB ASC 958-605-50-1 (formerly SFAS No. 116), *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Income taxes:

The Council is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Currently, the Council engages in no activities that would be taxed as unrelated business income. The Council's income tax filings are subject to examination by the Internal Revenue Service generally for three years after they were filed.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment:

It is the Council's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Council reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method.

Cash and Cash Equivalents:

The Council considers all liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable:

Grants, contracts, and contributions receivable are stated at net realizable value. In determining whether or not to record an allowance for doubtful accounts, management makes a judgmental determination based on an evaluation of the facts and circumstances related to each account. At December 31, 2017, the Council considers all accounts receivable to be fully collectible; accordingly no allowance for doubtful amounts is required. If amounts become uncollectible, they will be charged to the change in net assets when that determination is made.

Functional Expenses:

Expenses have been classified by specific functions where ascertainable. Those expenses that cannot be specifically identified by function type have been allocated to functions based upon management's best estimate of usage.

Fair Values of Financial Instruments:

The Council has a number of financial instruments, none of which is held for trading purposes. The Council estimates that the fair value of all financial instruments at December 31, 2017 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimated fair value amounts have been determined by the Council using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Council could realize in a current market exchange. The recorded values of cash, receivables, accounts payable, and accrued expenses approximate their fair values based on their short-term nature.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE B – ACCOUNTS RECEIVABLE

As of December 31, 2017, accounts receivable from grants and contracts were composed of:

U.S. Department of Education	
Passthrough Louisiana Department of Education	
Federal Basic/Leadership	\$ 23,874
Louisiana Department of Education	
State Basic	\$ 15,022

All receivables are expected to be received within less than one year of the financial statement date.

NOTE C – INVENTORY

Inventory represents books maintained by the Council for use by program participants. Inventory is reported at cost or the estimated fair market values at the date they are received, if donated.

NOTE D – PROMISES TO GIVE

During the year ended December 31, 2017, the Council received its July 1, 2017 through June 30, 2018 United Way allocation of \$131,268. The January 1, 2018 through June 30, 2018 portion of the allocation is temporarily restricted at time of receipt and is properly reflected in the accompanying statement of activities as an increase in temporarily restricted net assets in the amount of \$65,634. Uncollectible allocations are expected to be insignificant. All of the allocation is expected to be received in less than one year.

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017, temporarily restricted net assets consisted of the January 1, 2018 through June 30, 2018 portion of the United Way allocation totaling \$65,634 and \$41,661 in unspent Wal-Mart and Dollar General grant proceeds designated for educational purposes. Total temporarily restricted net assets equaled \$107,295 at December 31, 2017.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE F – PROPERTY AND EQUIPMENT

As of December 31, 2017, property and equipment consisted of:

Equipment	\$124,855
Leasehold Improvements	4,051
Land	<u>5,788</u>
Total Fixed Assets	134,694
Less Accumulated Depreciation	<u>(121,694)</u>
Net Fixed Assets	<u>\$ 13,000</u>

Property and equipment acquisitions are capitalized at cost, if purchased, or at estimated fair market value if donated. Depreciation expense for the years ended December 31, 2017 was \$3,762.

NOTE G – OPERATING LEASE COMMITMENT

As of October 1, 1997, the Council entered into a five-year non-cancelable operating lease for its office facility requiring rent of \$821 per month. Over the lease term, monthly payments were adjusted to reflect changes in the space. Monthly payments during the year ended December 31, 2017 approximated \$1,750 per month.

As of December 31, 2017, there are no remaining operating lease payments under the non-cancelable operating lease. The lease expired on October 1, 2002. The Council continues to reside in its current location and rents this and additional classroom space in DeRidder and Cameron, Louisiana, on a month-to-month basis, with a 30-day notice required upon cancellation.

NOTE H – FUNCTIONAL ALLOCATION OF EXPENSES

Indirect expenses were allocated in the accompanying financial statements to program and supporting service functional expense groups. The methods of allocation were based on several factors such as utilization of office space as well as the Council's estimates of the relative proportion of various staff members' time and effort between program and administrative functions.

The allocation of indirect cost was based on the following 2017 percentages:

Program	92%
Management and General	5%
Fund Raising	3%

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE I – CONCENTRATIONS

The Council maintains bank accounts at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. Balances were not in excess of FDIC insured limits at December 31, 2017.

For the years ended December 31, 2017, the Council received 69% of its funding from federal and state grants and 15% of its funding from the United Way. The operations of the Council are subject to the administrative directives, rules, and regulations of federal and state regulatory agencies and the United Way. Such administrative directives, rules, and regulations are subject to change by legislative acts or administrative changes. Such changes may occur with little notice or inadequate funding to pay the related cost, including additional administrative burden, to comply with a change.

NOTE J – SUBSEQUENT EVENTS

The Council evaluated its December 31, 2017 financial statements for subsequent events through the date of the audit report, the date the financial statements were available to be issued. The Council is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

STEVEN M. DEROUEN & ASSOCIATES

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

Board of Directors
Literacy Council of Southwest Louisiana, Inc.
Lake Charles, Louisiana

I 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 Literacy Council of Southwest Louisiana, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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 June 29, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Literacy Council of Southwest Louisiana, 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Literacy Council of Southwest Louisiana, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of the Literacy Council of Southwest Louisiana, Inc.'s internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider item 2017-02 from the deficiencies described in the accompanying schedule of findings and responses to be a material weakness.

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. I consider items 2017-01 from the deficiencies described in the accompany schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Literacy Council of Southwest Louisiana Inc.'s financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Literacy Council of Southwest Louisiana Inc.'s Response to Findings

Literacy Council of Southwest Louisiana Inc.'s responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. Literacy Council of Southwest Louisiana Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Steven M. DeRouen & Associates

June 29, 2018

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
Lake Charles, Louisiana
Schedule of Findings and Responses
Year Ended December 31, 2017

A. Summary of Independent Auditor's Results:

1. Unqualified opinion on financial statements.
2. Significant deficiency in internal control – refer to B. 2017-01; material weakness in internal control – refer to B. 2017-02.
3. No instances of noncompliance noted.

B. GAGAS Findings:

2017-01- Segregation of Duties

Condition: Because of the entity's size and the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control.

Criteria: Effective internal control requires adequate segregation of duties among client personnel.

Effect: Without proper segregation of duties, errors within the financial records or fraud could go undetected.

Recommendation: None

Response: Management has considered this deficiency and determined that it would not be cost effective at this time to employ or contract the appropriate personnel to adequately segregate duties.

2017-02 Financial Statement Reporting

Condition: The Council maintains its books and records on the modified cash basis of accounting. The Council relies on the auditing firm to assist in adjusting the modified cash basis books to accrual basis and to assist in the preparation of external financial statements and related disclosures.

Criteria: Under U. S. generally accepted auditing standards, the auditing firm cannot be considered part of the Council's internal control structure.

Effect: Misstatements in financial statements could go undetected.

Recommendation: None

Response: Management has considered this weakness and determined that it would not be cost effective at this time to employ or contract the appropriate personnel to remove this deficiency.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
Lake Charles, Louisiana
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

Prior Year Findings:

2016-01- Segregation of Duties

A proper segregation of duties is not possible due to the small number of people involved in the Council's day-to-day operations.

2016-02 Financial Statement Reporting

The Council maintains its books and records on the modified cash basis of accounting. The Council relies on the auditing firm to assist in adjusting the modified cash basis books to accrual basis and to assist in the preparation of external financial statements and related disclosures. Under U. S. generally accepted auditing standards, the auditing firm cannot be considered part of the Council's internal control structure and because of the limitations of the accounting staff, the design of the Council's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Literacy Council of Southwest Louisiana, Inc.

Schedule of Compensation, Benefits and Other Payments to Executive Director

December 31, 2017

Agency Head Name: Tommeka Semien, Executive Director

Purpose	Amount
Salary	\$ 53,990.04
Benefits-health insurance	2,987.04
Benefits-retirement	0.00
Benefits-Life, ADD, LTD	1,000.00
Car allowance	0.00
Vehicle provided by government	0.00
Per diem	429.12
Reimbursements – Auto Mileage Reimb	139.10
Travel	0.00
Registration fees	100.00
Conference travel	765.58
Continuing professional education fees	0.00
Housing	0.00
Unvouchered expenses	0.00
Special meals	0.00

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AGREED-UPON PROCEDURES REPORT

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD OF JANUARY 1, 2017 THROUGH DECEMBER 31, 2017

To the Board of Commissioners and the Louisiana Legislative Auditor:

I have performed the procedures enumerated below, which were agreed to by the Literacy Council of Southwest Louisiana, Inc. 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 period January 1, 2017 through December 31, 2017. 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, I 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

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget
 - 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.
 - c) **Disbursements**, including processing, reviewing, and approving
 - d) **Receipts**, including receiving, recording, and preparing deposits
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
 - 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
 - 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, and (5) monitoring card usage
 - h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
 - 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. Note: Ethics requirements are not applicable to nonprofits.
 - j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Observation: *The Purchasing Policy does not include language describing how vendors are added to the vendor list.*

Management's Response: *The Council will compose and integrate this language in their Purchasing Policy*

Observation: *The Payroll/Personnel Policy does not specifically include the language listed in item 1e above.*

Management's Response: *The Council will compose and integrate this language in their Payroll/Personnel Policy*

Observation: *The Council does not have a written Credit Card Policy.*

Management's Response: *The Council will compose and adopt a Credit Card Policy.*

Board (or Finance Committee, if applicable)

2. Obtain and review the board/committee minutes for the fiscal period, and:
 - a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.
 - b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
 - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.
 - c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

There were no observations noted resulting from the application of these procedures.

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.
4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three-year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
 - a) Bank reconciliations have been prepared;
 - b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
 - c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

There were no observations noted resulting from the application of these procedures.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.
6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* **For each cash collection location selected:**
 - a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.
 - b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.
 - c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
 - Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
 - Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.
7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and 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) by a person who is not responsible for collections.

The collections procedures are not applicable to grants received by the Literacy Council of Southwest Louisiana, Inc.

Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.
9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
 - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
 - b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
 - c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.
10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.
11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.
12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.
13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

Observation: *The Executive Director that approves purchases occasionally also initiates purchases.*

Management's Response: *Due to the limited size of the administrative staff, management feels that separating this function is not practical. Management also employs compensating controls whereby the Contract Bookkeeper reviews all disbursements and a board member reviews all bank statements.*

Disbursements – General (Continued)

Observation: The individual who process checks can also add a vendor into the accounting system.

Management's Response: Due to the limited size of the administrative staff, management feels that separating this function is not practical. Management also employs compensating controls whereby the Executive Director reviews all disbursements and a board member reviews all bank statements.

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

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), 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.
15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

 - a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation 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.]
 - b) Report whether finance charges and/or late fees were assessed on the selected statements.
16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).
 - a) For each transaction, report whether the transaction is supported by:
 - An original itemized receipt (i.e., identifies precisely what was purchased)
 - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization.)
 - b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

Credit Cards/Debit Cards/Fuel Cards/P-Cards (Continued)

- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Observation: Finance/Interest charges were incurred on one credit card statement tested.

Observation: For one credit card statement tested, one transaction was not supported by an original receipt.

Management's Response: The Council will review all credit card statements to ensure all original supporting documentation is attached prior to payment.

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.
18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.
19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:
- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.
- b) Report whether each expense is supported by:
- An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
 - Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
 - Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

Travel and Expense Reimbursement (Continued)

- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.
- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

There were no observations noted resulting from the application of these procedures.

Contracts

- 20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.
- 21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:
 - a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.
 - b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:
 - If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)
 - If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.
 - c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.
 - d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.
 - e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

The contracts procedures are not applicable to grants received by the Literacy Council of Southwest Louisiana, Inc.

Payroll and Personnel

22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:
 - a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
 - b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.
23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:
 - a) Report whether 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.)
 - b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
 - c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.
24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.
25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Observation: *While the Executive Director approves all salaries, there is no written document evidencing salary rates and management's approval.*

Management's Response: *The Council will begin documenting salary rates and approvals.*

Ethics

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

Ethics (Continued)

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

The ethics procedures are not applicable to Literacy Council of Southwest Louisiana, Inc. The Literacy Council of Southwest Louisiana, Inc. is a non-profit organization.

Debt Service

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.
29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.
30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

The ethics procedures are not applicable to Literacy Council of Southwest Louisiana, Inc. The Literacy Council of Southwest Louisiana, Inc. is a non-profit organization.

Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.
32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.lla.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.
31. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

There were no observations noted resulting from the application of these procedures.

I was 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, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my 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.

Steven M. DeRouen & Associates

June 29, 2018
Lake Charles, Louisiana