

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

AUDITED FINANCIAL STATEMENTS  
June 30, 2019 and 2018



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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **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 October 1, 2019, 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 the effectiveness of Kids' Orchestra, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kids' Orchestra, Inc.'s internal control over financial reporting and compliance.

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CPAs & Financial Advisors  
Baton Rouge, Louisiana  
October 1, 2019



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KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

STATEMENT OF FINANCIAL POSITION  
June 30, 2019 and 2018

ASSETS	2019	2018
UNRESTRICTED CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 14,898	\$ 13,046
Accounts Receivable	278,361	70,229
Pledges Receivable, Current Portion	44,550	25,000
Prepaid Expenses	<u>3,612</u>	<u>1,520</u>
TOTAL UNRESTRICTED CURRENT ASSETS	341,421	109,795
PROPERTY AND EQUIPMENT:		
Leasehold Improvements	38,936	38,936
Furniture and Equipment	31,710	31,999
Music Equipment	<u>158,155</u>	<u>150,323</u>
TOTAL PROPERTY AND EQUIPMENT	228,801	221,258
Less Accumulated Depreciation	<u>(165,359)</u>	<u>(138,747)</u>
NET PROPERTY AND EQUIPMENT	<u>63,442</u>	<u>82,511</u>
OTHER ASSETS		
Pledges Receivable, Noncurrent Portion, Net of Allowance	<u>58,658</u>	<u>31,961</u>
TOTAL ASSETS	<u>\$ 463,521</u>	<u>\$ 224,267</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts Payable	\$ 54,000	\$ 40,447
Payroll Liabilities	37,286	29,563
Due to Affiliates	<u>54,530</u>	<u>9,265</u>
TOTAL LIABILITIES (ALL CURRENT)	145,816	79,275
NET ASSETS:		
Without Donor Restrictions	259,047	113,031
With Donor Restrictions	<u>58,658</u>	<u>31,961</u>
TOTAL NET ASSETS	<u>317,705</u>	<u>144,992</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 463,521</u>	<u>\$ 224,267</u>

See Accompanying Notes to the Financial Statements



KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

STATEMENT OF ACTIVITIES  
For the Years Ended June 30, 2019 and 2018

CHANGES IN UNRESTRICTED NET ASSETS	2019	2018
Unrestricted Revenues		
Corporate Contributions	582,333	614,142
Foundation Contributions	116,429	172,419
Individual Contributions	74,596	55,074
In-Kind Contributions	163,466	134,400
Other Contributions	47,227	8,596
Government Grants	768,830	448,503
Student Dues	83,353	94,949
Other Miscellaneous Income	540	3,600
<b>TOTAL UNRESTRICTED REVENUE</b>	<b>1,836,774</b>	<b>1,531,683</b>
Expenses		
Program Expenses	1,205,464	1,143,161
Management and General Expenses	286,148	220,420
Fundraising Expenses	206,513	154,394
<b>TOTAL EXPENSES</b>	<b>1,698,125</b>	<b>1,517,975</b>
Other Income (Expenses)		
Interest Income	70	42
Depreciation Expense	(34,641)	(38,090)
<b>TOTAL OTHER EXPENSES</b>	<b>(34,571)</b>	<b>(38,048)</b>
Released from restrictions	15,738	25,000
<b>INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>119,816</b>	<b>660</b>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Pledges Receivable	68,635	999
Net Assets Released from Restrictions	(15,738)	(25,000)
<b>INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>52,897</b>	<b>(24,001)</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>172,713</b>	<b>(23,341)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>144,992</b>	<b>168,333</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 317,705</b>	<b>\$ 144,992</b>

See Accompanying Notes to the Financial Statements



KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

STATEMENT OF FUNCTIONAL EXPENSES  
For the Years Ended June 30, 2019 and 2018

	2019			
	Program	Management and General	Fundraising	Total
EXPENSES:				
Advertising	\$ 170	\$ -	\$ 12,838	\$ 13,008
Auto	4,877	3,206	959	9,042
Bad Debts	15,738	-	-	15,738
Contract Labor	361,324	2,110	1,618	365,052
Dues and Subscriptions	8,913	2,677	3,657	15,247
Professional Development	87,072	27,851	4,661	119,584
Employee Benefits	5,934	4,097	1,522	11,553
Fundraising Expenses	-	-	29,771	29,771
Insurance	46,716	34,908	27,264	108,888
Materials	21,525	-	-	21,525
Meals	-	3,907	732	4,639
Meetings and Conferences	-	2,178	193	2,371
Occupancy Costs	-	18,671	-	18,671
Office Expenses	-	4,647	-	4,647
Orchestra Costs	10,486	-	-	10,486
Other Expenses	146,128	32,779	-	178,907
Payroll Taxes	25,764	6,892	7,836	40,492
Professional Fees	21,480	50,256	-	71,736
Postage and Printing	9,452	242	3,453	13,147
Photography and Video	-	-	1,533	1,533
Repairs	3,765	-	-	3,765
Salaries	328,904	80,656	110,476	520,036
Telephone	-	11,071	-	11,071
Transportation	107,216	-	-	107,216
TOTAL FUNCTIONAL EXPENSES	<u>\$ 1,205,464</u>	<u>\$ 286,148</u>	<u>\$ 206,513</u>	<u>\$ 1,698,125</u>

See Accompanying Notes to the Financial Statements



2018

	Program	Management and General	Fundraising	Total
<b>EXPENSES:</b>				
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 and Entertainment	-	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
Instrument 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

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS  
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 172,713	\$ (23,341)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	34,640	38,091
Amortization of Discount on Pledges Receivable	1,309	999
Bad Debt Expense on Pledges Receivable	15,738	-
Decrease (Increase) in Assets:		
Accounts Receivable	(208,132)	15,078
Prepaid Expenses	(2,092)	(1,520)
Current Pledges Receivable, net	(29,650)	(4,740)
Increase (Decrease) in Liabilities:		
Accounts Payable	13,553	32,932
Deferred Revenue	-	(46,326)
Payroll Liabilities	7,723	13,659
Due to Affiliates	45,265	(51,487)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>51,067</u>	<u>(26,655)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of Furniture and Equipment	(2,802)	(2,830)
Purchases of Music Equipment	(12,769)	(17,076)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(15,571)</u>	<u>(19,906)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Increases) Decreases in Long Term Pledges Receivable	(33,644)	18,842
<b>NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES</b>	<u>(33,644)</u>	<u>18,842</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,852	(27,719)
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<u>13,046</u>	<u>40,765</u>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u>\$ 14,898</u>	<u>\$ 13,046</u>

See Accompanying Notes to the Financial Statements

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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 reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity. Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the board limits resulting from the Organization, its environment in which it operates, the purposes specified in corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. The Organization has net assets with donor restrictions of \$58,658 and \$31,961 for the years ended June 30, 2019 and 2018, respectively.

Revenue Recognition – Contributions are recognized when the donor makes an unconditional promise to give. Contributions restricted by the donor are reported as increased in net assets without donor restrictions if the restriction expires in the same fiscal year in which the support is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, that is when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

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.



KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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, 2019 and 2018 was \$34,641 and \$38,090, 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, 2019 and 2018.

Concentration of Support – For the years ended June 30, 2019 and 2018, the Organization received approximately 30% and 38%, respectively, of its annual revenues from corporate contributions. For the years ended June 30, 2019 and 2018, the Organization received 96% of its corporate contributions from related parties (see Note 2).

For the year ended June 30, 2019 and 2018, the Organization received approximately 33% and 29% 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 \$13,008 and \$19,717 in advertising expense for the years ended June 30, 2019 and 2018, 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.

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, 2019 and 2018, the Organization incurred \$139,272 and \$139,998, respectively, in expenses paid by Powell. The Organization reimbursed Powell \$94,007 and \$191,485 during the year ended June 30, 2019 and 2018, respectively. The Organization owed Powell \$54,530 and \$9,265 at June 30, 2019 and 2018, respectively.

The Organization is affiliated with numerous other organizations through common management, common board of directors, and accounting personnel. For the years ended June 30, 2019 and 2018, affiliated organizations contributed \$560,000 and \$615,000, respectively.

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

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 \$11,553 and \$10,424 to the plan for the years ended June 30, 2019 and 2018, respectively.

NOTE 4: OPERATING LEASES

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. The lease was renewed till December 2019. For the years ended June 30, 2019 and 2018, rent expense was \$18,000 and \$18,000, respectively. Future minimum payments for the next year are \$9,000.

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 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of June 30, 2019 and 2018, 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, 2019 and 2018. 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 wrote off a total of \$10,100 in pledges that were past due and remained unpaid. Management also recorded an allowance for doubtful accounts for 5% of the total pledges receivable at June 30, 2019. Pledges due beyond one year have been discounted at an annual rate of 1.72% for 5-year pledges received in 2017 and 1.78% for 5-year pledges received in 2019. Pledges receivable consists of the following:

	<u>2019</u>	<u>2018</u>
Pledges Receivable	\$ 112,750	\$ 59,000
Less:		
Allowance for Doubtful Accounts	(5,538)	-
Discount for Future Payments	(3,904)	(2,039)
Pledges Receivable, net	<u>\$ 103,208</u>	<u>\$ 56,961</u>
Pledges Receivable in One Year	\$ 44,550	\$ 25,000
Pledges Receivable in One to Five Years	58,658	31,961
	<u>\$ 103,208</u>	<u>\$ 56,961</u>

KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS  
June 30, 2019 and 2018

NOTE 7: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organizations' financial assets as of the statement of financial position date, reduced by any amounts not available for general use within one year of the statement of financial position date because of the contractual or donor-imposed restrictions or internal designations:

	<u>6/30/19</u>
Current Assets, excluding nonfinancial assets	\$ 337,809
Less those unavailable for general expenditures within one year:	
Donor restrictions for a specific time	<u>58,658</u>
Financial Assets available to meet cash needs for general expenditures within one year	<u>\$ 279,151</u>

NOTE 8: CHANGE IN ACCOUNTING PRINCIPLE

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not for Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has presented the financial statements accordingly.

NOTE 9: SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through October 1, 2019, 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, 2019 and 2018

No compensation, reimbursements, or benefits were provided to the agency head using public funds for the years ended June 30, 2019 and 2018.

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, 2019, 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 October 1, 2019.

### 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  
October 1, 2019



KIDS' ORCHESTRA, INC.  
Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2019

**Current Year Findings**

There were no findings for the year ended June 30, 2019.

**Prior Year Findings**

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



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, 2018 through June 30, 2019. 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:* Kids' Orchestra keeps a receipt book and records all monies collected which are then reconciled with the deposit book ensuring all monies collected were accounted for.
  - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.  
*No Exceptions Noted.*

- 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  
*No Exceptions Noted.*
- 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.*
- k) **Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.  
*Exception:* The organization does not have a Disaster Recovery/Business Continuity Policy.  
*Management's Response:* Any data regarding Kids' Orchestra is stored on Sharepoint in the cloud. IT Inspired backs up all of data and monitors the cyberware and antivirus software that is installed on all machines. Kids' Orchestra also hold a Cyber insurance policy.

#### **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.  
*No Exceptions Noted.*

- 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 unassigned fund balance in the general fund. If the general fund had a negative ending unassigned 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 unassigned 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

*No Exceptions Noted.*

- 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.

*Not Applicable.*

### **Collections (excluding EFTs)**

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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.  
*No Exceptions Noted.*
  - 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 dates to compare to the deposit date.

**Management's Response:** Documentation of collection dates are recorded in donor software in the development office. Tuition collection dates are kept in excel spreadsheets at the Kids' Orchestra office manager's desk.

- 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.

**No Exceptions Noted.**

- 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 (or electronically approved), by someone other than the authorized card holder.  
*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). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.  
*No Exceptions Noted.*

### **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.  
*No Exceptions Noted.*

## **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).  
*Exception:* Salaried employees do not document daily attendance  
*Management's Response:* Salaried employees are exempt per the Kids' Orchestra handbook and are not required to sign in and out.

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:* Salaried employees are exempt per the Kids' Orchestra handbook and are not required to sign in and out.

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:
- Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.  
*Not Applicable.*
  - 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 (including contingency funds, short-lived asset funds, or other funds required by the 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  
October 1, 2019