

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

**FINANCIAL STATEMENTS
December 31, 2018**

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.

Lake Charles, Louisiana

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

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, 2018, 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 26, 2019, 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 26, 2019

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 149,960
Unconditional promises to give	53,432
Grants receivable	74,291
Prepaid expenses	6,976
Total current assets	<u>284,659</u>

PROPERTY AND EQUIPMENT

Equipment	127,059
Leasehold improvements	4,051
	<u>131,110</u>
Less accumulated depreciation	<u>(125,017)</u>
	6,093
Land	5,788
Net property and equipment	<u>11,881</u>

OTHER ASSETS

Inventory	<u>53,221</u>
Total assets	<u>\$ 349,761</u>

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF FINANCIAL POSITION (Continued)
December 31, 2018

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 9,873
Accrued expenses	<u>29,028</u>
Total current liabilities	<u>38,901</u>
Total liabilities	<u>38,901</u>

NET ASSETS

Without donor restrictions	
Board designated	32,625
Undesignated	<u>227,101</u>
Total net assets without donor restrictions	<u>259,726</u>
With donor restrictions	<u>51,134</u>
Total net assets	<u>310,860</u>
Total liabilities and net assets	<u>\$ 349,761</u>

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF ACTIVITIES AND NET ASSETS
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT			
United Way of Southwest Louisiana	\$ 57,438	\$ 51,134	\$ 108,572
Federal and State Grants	705,412	-	705,412
Contributions and Private Grants	9,641	-	9,641
Interest income	187	-	187
Program fees	32,703	-	32,703
Fund raising	41,930	-	41,930
Other income	91,786	-	91,786
Total revenues and gains	939,097	51,134	990,231
Net assets released from restrictions	107,295	(107,295)	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	1,046,392	(56,161)	990,231
EXPENSES			
Program services	814,023	-	814,023
Management and general	56,817	-	56,817
Fund raising	56,237	-	56,237
TOTAL EXPENSES	927,077	-	927,077
CHANGE IN NET ASSETS	119,315	(56,161)	63,154
NET ASSETS AT BEGINNING OF YEAR	140,411	107,295	247,706
NET ASSETS AT END OF YEAR	\$ 259,726	\$ 51,134	\$ 310,860

See accompanying notes to financial statements.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2018

Cash Flows From Operating Activities	
Cash received from Federal and State Grants	\$ 670,017
Cash received from Private Grants, Contracts, and Contributions	297,021
Cash paid to Suppliers and Employees	<u>(917,501)</u>
Net Cash Provided (Used) By Operating Activities	<u>49,537</u>
 Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	(2,203)
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(2,203)</u>
 Cash Flows From Investing Activities	
Interest received	<u>187</u>
Net Cash Provided (Used) By Investing Activities	<u>187</u>
Net Increase (Decrease) In Cash	47,521
Cash - Beginning of Year	<u>102,439</u>
Cash - End of Year	<u><u>\$ 149,960</u></u>
 Cash Flows From Operating Activities	
Increase (decrease) in net assets	\$ 63,154
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation expense	3,323
Interest income	(187)
(Increase) decrease in operating assets:	
Grants and unconditional promises to give	(23,193)
Prepaid expenses	259
Increase (decrease) in operating liabilities:	
Accounts payable	3,921
Accrued expense	<u>2,261</u>
Total Adjustments	<u>(13,616)</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 49,537</u>

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services	Supporting Services		Total
		Management and General	Fund Raising	
Computer expenses/technology	\$ 1,806	\$ 98	\$ 59	\$ 1,963
Depreciation	3,057	166	100	3,323
Dues	1,051	57	34	1,142
Education and testing fees	11,795	-	-	11,795
Insurance - other	15,387	836	502	16,725
Interest expense	106	6	3	115
Miscellaneous	1,345	961	-	2,306
Office expense	69,551	3,780	2,268	75,599
Office occupancy	30,346	1,649	990	32,985
Payroll taxes	41,771	2,270	1,362	45,403
Professional fees	-	12,330	-	12,330
Salaries and wages	567,919	30,865	18,519	617,303
Employee benefits	49,732	2,703	1,622	54,057
Telephone	3,860	210	126	4,196
Travel	4,270	232	139	4,641
Fundraising expenses	-	-	30,121	30,121
Training and conferences	12,027	654	392	13,073
Total expenses	\$ 814,023	\$ 56,817	\$ 56,237	\$ 927,077

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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 2018 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 follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) Topic, *Financial Statements of Not-for-Profit Organizations*. In accordance with this guidance, the Council is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include board designated net assets which represent funds set aside for future operations.

Net Assets With Donor Restrictions – Net assets available subject to donor-imposed or certain grantor-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, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

The Council reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to the passage of time:	
For periods after December 31, 2018	\$ 51,134

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.

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.

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.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018, 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 were allocated in the accompanying financial statements to program and support services functional expense groups. The methods of allocation were based on the Council's estimates of the relative proportion of various staff members' time and effort between program and support services as well as the Council's estimates of the amount of each expense utilized for program or support service functions.

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, 2018 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, prepaids, inventory, 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, 2018

NOTE B – ACCOUNTS RECEIVABLE

As of December 31, 2018, accounts receivable from grants and contracts were composed of:

U.S. Department of Education	
Passthrough Louisiana Department of Education	
Federal Basic/Leadership	\$ 42,256
Federal Correctional Education	1,193
Federal Integrated Literacy/Civics	2,774
Louisiana Department of Education	
State Basic	\$ 28,068

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 – UNCONDITIONAL PROMISES TO GIVE

During the year ended December 31, 2018, the Council received its July 1, 2018 through June 30, 2019 United Way allocation of \$102,267. The January 1, 2019 through June 30, 2019 portion of the allocation is donor restricted at time of receipt and is properly reflected in the accompanying statement of activities as an increase in donor restricted net assets in the amount of \$51,134. Uncollectible allocations are expected to be insignificant. All of the allocation is expected to be received in less than one year.

NOTE E – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Council has \$277,683 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting substantially of cash totaling \$149,960, unconditional promises to give of \$53,432 and grants receivable of \$74,291. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. The unconditional promises to give are subject to implied time restrictions but are expected to be collected within one year. The Council has a goal to maintain financial assets which consist of cash on hand to meet 60 days of normal operating expenses, which are, on average approximately \$150,000. The Council has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, the Council deposits cash in excess of daily requirements in its interest-bearing savings account.

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE F – PROPERTY AND EQUIPMENT

As of December 31, 2018, property and equipment consisted of:

Equipment	\$127,059
Leasehold Improvements	4,051
Land	<u>5,788</u>
Total Fixed Assets	136,898
Less Accumulated Depreciation	<u>(125,017)</u>
Net Fixed Assets	<u>\$ 11,881</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, 2018 was \$3,323.

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, 2018 approximated \$1,755 per month.

As of December 31, 2018, 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 (approx. \$300 per month) and Cameron (approx. \$250 per month), Louisiana, on a month-to-month basis, with a 30-day notice required upon cancellation.

Rental expense totaled \$29,190 during the year ended December 31, 2018.

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 2018 percentages:

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

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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, 2018.

For the years ended December 31, 2018, the Council received 71% of its funding from federal and state grants and 11% 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, 2018 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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2019.

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 2018-02 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 2018-01 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 26, 2019

LITERACY COUNCIL OF SOUTHWEST LOUISIANA, INC.
Lake Charles, Louisiana
Schedule of Findings and Responses
Year Ended December 31, 2018

A. Summary of Independent Auditor's Results:

1. Unqualified opinion on financial statements.
2. Significant deficiency in internal control – refer to B. 2018-01; material weakness in internal control – refer to B. 2018-02.
3. No instances of noncompliance noted.

B. GAGAS Findings:

2018-01- 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.

2018-02 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, 2018

Prior Year Findings:

2017-01- 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.

2017-02 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, 2018

Agency Head Name: Tommeka Semien, Executive Director

Purpose	Amount
Salary	\$ 56,021.94
Benefits-health insurance	3,198.19
Benefits-retirement	0.00
Benefits-Life, ADD, LTD	1,000.00
Car allowance	0.00
Vehicle provided by government	0.00
Per diem	478.32
Reimbursements – Auto Mileage Reimb	0.00
Travel	0.00
Registration fees	607.00
Conference travel	670.35
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, 2018 THROUGH DECEMBER 31, 2018

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, 2018 through December 31, 2018. The Entity's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, 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 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
 - 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/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).
 - 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 of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)
 - 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.
 - j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/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

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

There were no observations noted in the prior year's "Board or Finance Committee" testing, therefore the above procedures are not applicable.

Bank Reconciliations

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);
 - 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
 - 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.

There were no observations noted in the prior year's "Bank Reconciliation" testing, therefore the above procedures are not applicable.

Collections

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).
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.
 - b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.
 - c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.
 - d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.
6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.
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.
 - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - c) Trace the deposit slip total to the actual deposit per the bank statement.
 - d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).
 - e) Trace the actual deposit per the bank statement to the general ledger.

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

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

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).
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.
 - b) At least two employees are involved in processing and approving payments to vendors.
 - c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.
 - 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.
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.
 - b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

Observation: *The Executive Director who 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.*

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.*

Observation: *The individual who is responsible for processing some payments occasionally also mails checks.*

Management's Response: *Due to the limited number of administrative staff, management does not believe it is cost effective to separate this function.*

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

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.
12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:
 - a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
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).

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

Travel and Travel-Related Expense Reimbursements

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).
 - b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - 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).
 - d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

There were no observations noted in the prior year's "Travel and Travel-Related Expense Reimbursements" testing, therefore the above procedures are not applicable.

Contracts

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

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

Payroll and Personnel

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.
17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:
- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)
 - b) Observe that supervisors approved the attendance and leave of the selected employees/officials.
 - c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
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' cumulate leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.
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.

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

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above obtain ethics documentation from management, and:
 - a. Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.
 - b. Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity’s ethics policy during the fiscal period.

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

Debt Service

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.
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.

The “Debt Service” procedures are not applicable to the Literacy Council of Southwest Louisiana, Inc. The Literacy Council of Southwest Louisiana, Inc. is a non-profit organization.

Other

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.
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.

There were no observations noted in the prior year’s “Other” testing, therefore the above procedures are not applicable.

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 26, 2019
Lake Charles, Louisiana