

Shreveport Charter Foundation, Inc.

FINANCIAL STATEMENTS

June 30, 2020 and 2019



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Shreveport Charter Foundation, Inc.
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Shreveport Charter Foundation, Inc.
Shreveport, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Shreveport Charter Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 auditors' 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 Shreveport Charter Foundation, Inc. as of June 30, 2020 and 2019, 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

Supplementary and 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 Paid to the Board of Trustees and Schedule of Compensation, Benefits and Other Payments to Agency Head are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2020, on our consideration of Shreveport Charter Foundation, 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 solely 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 Shreveport Charter Foundation 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 Shreveport Charter Foundation, Inc.'s internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana
December 23, 2020

Shreveport Charter Foundation, Inc.
Statements of Financial Position

<i>June 30,</i>	2020	2019
Assets		
Current assets		
Cash	\$ 295,806	\$ 500,728
Grant and other receivables	252,551	101,592
Due from management company	108,378	38,187
Prepaid expenses and other current assets	2,646	4,691
Total current assets	659,381	645,198
Property and equipment		
Real estate and buildings held under capital leases	28,813,183	28,813,183
Furniture, fixtures and equipment held under capital leases	1,810,821	1,810,821
Less: accumulated amortization	(8,016,153)	(6,675,143)
Furniture, fixtures and equipment	1,125,520	1,116,610
Less: accumulated depreciation	(861,493)	(720,298)
Net property and equipment	22,871,878	24,345,173
Other assets		
Deposits	44,053	36,033
Total other assets	44,053	36,033
Total assets	\$ 23,575,312	\$ 25,026,404
Liabilities and Net Assets (Deficit)		
Current liabilities		
Accounts payable	\$ 37,679	\$ 53,614
Capital lease payable, current	370,013	314,682
Accrued expenses	509,100	559,836
Due to other government agencies	-	17,012
Total current liabilities	916,792	945,144
Long-term liabilities		
Interest payable	1,333,900	1,308,007
Capital lease payable, long-term	28,592,350	28,962,363
Total long-term liabilities	29,926,250	30,270,370
Total liabilities	30,843,042	31,215,514
Net assets (deficit)		
Without donor restrictions	(7,267,730)	(6,189,110)
With donor restrictions	-	-
Total net assets (deficit)	(7,267,730)	(6,189,110)
Total liabilities and net assets (deficit)	\$ 23,575,312	\$ 25,026,404

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

Shreveport Charter Foundation, Inc.
Statement of Activities

<i>For the year ended June 30, 2020</i>	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Minimum Foundation Program	\$ 11,408,205	\$ -	\$ 11,408,205
Federal grants	639,042	-	639,042
Contribution from CSUSA	675,945	-	675,945
Debt forgiveness	1,438,113	-	1,438,113
Other income	139,373	-	139,373
Total support and revenue	14,300,678	-	14,300,678
Expenses			
Program services			
Regular education	8,371,036	-	8,371,036
Special education	1,387,498	-	1,387,498
Other education	71,801	-	71,801
Supporting services			
Management and general	5,548,963	-	5,548,963
Total expenses	15,379,298	-	15,379,298
Change in net assets	(1,078,620)	-	(1,078,620)
Net assets (deficit), beginning of period	(6,189,110)	-	(6,189,110)
Net assets (deficit), end of period	\$ (7,267,730)	\$ -	\$ (7,267,730)

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

Shreveport Charter Foundation, Inc.
Statement of Activities

<i>For the year ended June 30, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Minimum Foundation Program	\$ 10,201,082	\$ -	\$ 10,201,082
Federal grants	807,671	-	807,671
Contribution from CSUSA	883,322	-	883,322
Debt forgiveness	1,667,365	-	1,667,365
Other income	251,043	-	251,043
Total support and revenue	13,810,483	-	13,810,483
Expenses			
Program services			
Regular education	8,448,624	-	8,448,624
Special education	1,072,840	-	1,072,840
Other education	79,596	-	79,596
Supporting services			
Management and general	6,372,904	-	6,372,904
Total expenses	15,973,964	-	15,973,964
Change in net assets	(2,163,481)	-	(2,163,481)
Net assets (deficit), beginning of period	(4,025,629)	-	(4,025,629)
Net assets (deficit), end of period	\$ (6,189,110)	\$ -	\$ (6,189,110)

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

Shreveport Charter Foundation, Inc.
Statement of Functional Expenses

For the Year Ended June 30,

2020

	Program Services				Supporting Services	
	Regular Education	Special Education	Other Education	Total Program Services	Management and General	Total Expenses
Salaries	\$ 3,539,310	\$ 761,548	\$ 22,978	\$ 4,323,836	\$ 486,101	\$ 4,809,937
Benefits	582,428	109,346	1,833	693,607	75,032	768,639
Professional services	826	102	-	928	64,966	65,894
Contracted and vendor services	787,961	97,389	-	885,350	996,599	1,881,949
Professional development	19,127	2,364	-	21,491	-	21,491
Supplies and materials	213,554	28,624	-	242,178	10,245	252,423
Utilities	369,846	45,711	-	415,557	21,871	437,428
Repairs and maintenance	571,098	70,585	-	641,683	33,773	675,456
Insurance	112,485	13,903	-	126,388	6,702	133,090
Interest	-	-	-	-	3,061,466	3,061,466
Depreciation and amortization	1,253,205	154,890	-	1,408,095	74,110	1,482,205
School board fees	198,906	24,584	-	223,490	-	223,490
Travel	31,215	3,858	-	35,073	10,182	45,255
Marketing and recruitment	97,453	12,045	-	109,498	5,667	115,165
Food service	370,605	45,805	228	416,638	1,782	418,420
Technology	87,624	10,830	-	98,454	23,634	122,088
Office expense	39,631	4,898	-	44,529	21,800	66,329
Student services	8,219	1,016	46,762	55,997	-	55,997
Other	87,543	-	-	87,543	655,033	742,576
Total Functional Expenses	\$ 8,371,036	\$ 1,387,498	\$ 71,801	\$ 9,830,335	\$ 5,548,963	\$ 15,379,298

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

Shreveport Charter Foundation, Inc.
Statement of Functional Expenses

For the Year Ended June 30,

2019

	Program Services				Supporting Services	Total Expenses
	Regular Education	Special Education	Other Education	Total Program Services	Management and General	
Salaries	\$ 3,949,831	\$ 656,606	\$ 56,393	\$ 4,662,830	\$ 523,051	\$ 5,185,881
Benefits	647,709	92,627	7,527	747,863	75,247	823,110
Professional services	4,957	431	-	5,388	88,714	94,102
Contracted and vendor services	410,165	35,666	-	445,831	1,222,734	1,668,565
Professional development	20,466	1,780	-	22,246	-	22,246
Supplies and materials	260,625	23,024	-	283,649	17,338	300,987
Utilities	444,821	38,680	-	483,501	25,447	508,948
Repairs and maintenance	592,213	51,497	-	643,710	33,879	677,589
Insurance	125,390	10,903	-	136,293	7,238	143,531
Interest	-	-	-	-	3,091,880	3,091,880
Depreciation and amortization	1,392,521	121,089	-	1,513,610	79,664	1,593,274
School board fees	187,700	16,322	-	204,022	-	204,022
Travel	38,212	3,323	-	41,535	12,059	53,594
Marketing and recruitment	91,756	7,979	-	99,735	5,165	104,900
Food service	430,163	37,406	712	468,281	2,681	470,962
Technology	76,553	6,657	-	83,210	23,490	106,700
Office expense	42,263	3,675	-	45,938	32,032	77,970
Student services	8,566	745	14,964	24,275	-	24,275
Other	133,774	-	-	133,774	687,654	821,428
Total Functional Expenses	\$ 8,857,685	\$ 1,108,410	\$ 79,596	\$ 10,045,691	\$ 5,928,273	\$ 15,973,964

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

Shreveport Charter Foundation, Inc.
Statements of Cash Flows

<i>For the years ended June 30,</i>	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (1,078,620)	\$ (2,163,481)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	1,482,205	1,593,274
(Increase) decrease in		
Grant and other receivables	(150,959)	(18,850)
Due from management company	(70,191)	(38,187)
Prepaid expenses and other current assets	2,045	71,156
Deposits	(8,020)	-
Increase (decrease) in		
Accounts payable	(15,935)	(148,112)
Accrued expenses	(50,736)	(459,544)
Due to other government entities	(17,012)	17,012
Deferred revenue	-	(2,176)
Interest payable	25,893	40,191
Net cash provided by (used in) operating activities	118,670	(1,108,717)
Cash flows from investing activities		
Purchase of property and equipment	(8,910)	(249,255)
Cash restricted for purchase of fixed assets	-	43,195
Net cash provided by (used in) investing activities	(8,910)	(206,060)
Cash flows from financing activities		
Payments on capital leases	(314,682)	(439,712)
Net cash provided by (used in) financing activities	(314,682)	(439,712)
Net increase (decrease) in cash	(204,922)	(1,754,489)
Cash - beginning of period	500,728	2,255,217
Cash - end of period	\$ 295,806	\$ 500,728
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 3,035,573	\$ 3,051,689
Noncash operating and investing activities		
Increase in property held under capital leases	\$ -	\$ 43,195

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

Shreveport Charter Foundation, Inc. **Notes to the Financial Statements**

Note 1: DESCRIPTION OF THE ORGANIZATION

Shreveport Charter Foundation, Inc. (the Foundation), a Louisiana nonprofit corporation, was formed on February 27, 2012, exclusively for educational purposes. The Foundation has entered into a Type 1 charter school contract with Caddo Parish School Board (CPSB) to operate the Magnolia School of Excellence (the Charter School) for students in Caddo Parish, Louisiana. The lower campus includes grades kindergarten through fifth grade. The upper campus includes grades six through twelve. The original charter agreement with CPSB dated February 5, 2013 was for an initial term of five years. The charter agreement was renewed for an additional three years.

The Foundation is an independent nonprofit entity, separate and distinct from the Caddo Parish School Board, the primary government and reporting entity. However, the Foundation is a component unit of CPSB and the Foundation's financial statements are included in the CPSB's basic financial statements as a component unit. Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. The criteria used in determining whether financial accountability exists include the appointment of a voting majority of an organization's governing board, the ability of the primary government to impose its will on that organization or whether there is a potential for the organization to provide specific financial benefits or burdens to the primary government. Fiscal dependency may also play a part in determining financial accountability. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Foundation is included in the reporting entity because it is fiscally dependent on the CPSB for the majority of its revenue, and because exclusion would render the CPSB's financial statements incomplete or misleading.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Foundation has adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958 "Not-for-Profit Entities." Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities based on the absence or existence of donor-imposed restrictions.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. The financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs). Revenues are recognized when earned and expenses are recognized when incurred. All significant receivables, payables and other liabilities are reflected.

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 changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash consists of demand deposit balances and represents cash available for general operating purposes. The Foundation classifies all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents. The Foundation did not have any cash equivalents at June 30, 2020 and 2019.

Grant and Other Receivables

The receivables are stated at the amount management expects to collect. The financial statements do not include an estimate for an allowance for doubtful accounts, as management believes all remaining receivables are fully collectible.

The Foundation received various federal grants to fund programs and operations. The grants are on a reimbursement basis and grants receivable at year-end are stated at unpaid balances for expenditures incurred prior to year-end.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Acquisitions of property and equipment and betterments of \$750 or more that naturally add to the value of related assets or materially extend the useful lives of assets are capitalized at cost. Contributed property and equipment is recorded at fair value at the date of donation. Normal building maintenance and minor equipment purchases are included as expenses of the Foundation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives used in computing depreciation are as follows:

Buildings	20 – 30 Years
Furniture, fixtures and equipment	3 – 10 Years

Assets purchased with public funds will revert to the Louisiana Board of Elementary and Secondary Education at the time the Charter agreement is terminated.

Depreciation expense, which includes amortization expense of capital lease assets, incurred for the years ended June 30, 2020 and 2019, was \$1,482,205 and \$1,593,274, respectively.

Compensated Absences

Employees may accrue between 8 and 26 days per year of paid time off depending on length of service and classification. A maximum of 5 days (40 hours) of paid time off can be carried over from year to year. Earned but unused paid time off is eligible for payment upon separation from service up to a maximum of 40 hours. The liability for compensated absences includes salary-related benefits, where applicable.

Leasing Arrangements and Amortization

The Foundation leases the school buildings and substantially all of the furniture, fixtures and equipment utilized by the Charter School under capital leases as described in Note 6. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized (or depreciated) over the lower of the related lease terms or the estimated productive lives. Amortization (or depreciation) of assets under capital leases is included in depreciation and amortization expense.

Net Assets

The Foundation 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.

Shreveport Charter Foundation, Inc. Notes to the Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. Some net assets without donor restrictions may be designated by the governing board of the Foundation for specific purposes.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by 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.

Revenue Recognition

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenues from federal grants are recorded when the Foundation has a right to reimbursement under the grant, generally corresponding to the incurring of grant related costs by the Foundation, or when earned under the terms of the grants. An accrual is made when eligible expenses are incurred.

The Foundation's primary source of funding is through the Minimum Foundation Program (MFP), passed through from CPSB and funded by the State Public School Fund. CPSB withholds 2% of the gross funding for the fiscal year.

Functional Expense Allocation

The majority of expenses reported in the financial statements can be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function, including depreciation and amortization, leadership salaries and the technology department, have been allocated among program and supporting services classifications based on estimates of time and effort and square footage.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Foundation uses advertising to promote the schools among the population it serves. Advertising costs are charged to expense when incurred. Advertising expense for the years ended June 30, 2020 and 2019 was approximately \$113,300 and \$103,300, respectively.

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is also exempt from Louisiana state income taxes. However income, if any, from certain activities not directly related to the Foundation's tax exempt purpose is subject to taxation as unrelated business income.

The Foundation follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB ASC, which clarifies the accounting and recognition for income tax positions taken or expected to be taken in the Foundation's income tax returns. Management evaluated the Foundation's tax positions and concluded that they had taken no uncertain tax positions that required adjustments to the financial statements to comply with the provisions of this guidance.

Reclassifications

Certain reclassifications have been made to the prior year amounts to conform with the current year presentation.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 23, 2020. See Note 15 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

New Accounting Standard

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which the Organization serves as a resource recipient for fiscal years beginning after December 15, 2018. On July 1, 2019 the Foundation applied the provisions of this ASU on a modified prospective basis. The adoption of this standard had no effect on net assets or the change in net assets.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU and its amendments will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. In June 2020, FASB issued ASU 2020-05 which allowed a deferral of the effective date of ASU 2014-09 until annual reporting periods beginning after December 15, 2019. The Foundation is currently evaluating the impact of the guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU and its amendments supersedes the leasing guidance in Topic 840, entitled *Leases*. Under the guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. In June 2020, FASB issued ASU 2020-05 which allowed a deferral of the effective date of ASU 2016-02 until annual reporting periods beginning after December 15, 2021. The Foundation is currently evaluating the impact of the guidance on its financial statements.

Note 3: LIQUIDITY OF FINANCIAL ASSETS

As part of the Foundation’s liquidity management, it maintains its funds in cash operating accounts in order to meet the needs of general expenditures, liabilities or other obligations as they come due. Revenue from the Minimum Foundation Program and sources other than federal grants and internal funds is not restricted for specific purposes and is available for general expenditure. The financial assets available to meet cash needs for general expenditures within one year of the financial position date are as follows:

June 30,	2020	2019
Cash	\$ 295,806	\$ 500,728
Grant and other receivables	252,551	101,592
Due from management company	108,378	38,187
Total financial assets available to meet general expenditures within one year	 \$ 656,735	 \$ 640,507

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 4: GRANT AND OTHER RECEIVABLES

At June 30, 2020 and 2019, grant and other receivables totaled \$252,551 and \$101,592, respectively, and are considered fully collectible.

Note 5: ACCRUED EXPENSES

<i>June 30,</i>	2020	2019
Payroll and benefits	\$ 485,501	\$ 535,493
Other	23,599	24,343
Total accrued expenses	\$ 509,100	\$ 559,836

Note 6: CAPITAL LEASES

Following is a summary of assets held under capital leases:

<i>June 30,</i>	2020	2019
Real estate and buildings	\$ 28,813,183	\$ 28,813,183
Furniture, fixtures and equipment	1,810,821	1,810,821
Property held under capital leases	30,624,004	30,624,004
Less: accumulated amortization	(8,016,153)	(6,675,143)
Property held under capital lease, net	\$ 22,607,851	\$ 23,948,861

Assets held under capital leases are included in net property and equipment on the Statement of Financial Position.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 6: CAPITAL LEASES (Continued)

The Foundation had the following capital leases payable:

<i>June 30,</i>	2020	2019
Capital lease payable to Red Apple at Magnolia, LLC for real property in the original amount of \$12,278,567, with a commencement date of July 22, 2013, with an effective interest rate of 10.147%, payable in monthly payments ranging from \$65,386 to \$148,788, including interest, maturing on June 1, 2033.	\$ 11,543,733	\$ 11,827,799
Capital lease payable to Red Apple at Magnolia Upper, LLC for real property in the original amount of \$16,534,616, with a commencement date of August 1, 2016, with an effective interest rate of 10.094%, payable in monthly payments ranging from \$32,635 to \$188,589, including interest, maturing on July 31, 2046.	16,501,981	16,501,981
Capital lease payable to Red Apple at Magnolia Upper, LLC for equipment in the amount of \$1,030,000, dated August 1, 2016, with an effective interest rate of 8.78%, payable in monthly payments ranging from \$8,808 to \$8,993, including interest, maturing July 31, 2036.	916,649	947,265
Total capital leases payable	28,962,363	29,277,045
Less current maturities	(370,013)	(314,682)
Long-term capital leases payable	\$ 28,592,350	\$ 28,962,363
Scheduled annual lease payments for the fiscal years ending June 30, are:		
2021	\$ 3,392,467	
2022	3,435,364	
2023	3,483,084	
2024	3,526,565	
2025	3,569,873	
Thereafter	58,505,978	
Total minimum lease payments	75,913,331	
Less interest	(46,950,968)	
Net minimum lease payments	\$ 28,962,363	

The Foundation's capital leases with Red Apple at Magnolia Upper, LLC dated August 1, 2016 include restrictive covenants that require, among other items, the Foundation to have an annual rent coverage ratio of at least 1.15 to 1.00 each quarter and unrestricted immediately available funds on hand each June 30 in an amount at least equal to the Days Cash on Hand Requirement for the applicable period.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 6: CAPITAL LEASES (Continued)

The Foundation is required to calculate the annual rent coverage ratio quarterly based on a rolling twelve month period. Annual rent coverage ratio is determined by dividing income available for annual rent by maximum annual rent. Income available for annual rent is the excess of charter revenues over operating expenses as determined from audited financial statements provided that gains and losses on investments will not be recognized in the calculation of income available for annual rent. Maximum annual rent means the highest rent due under the lease for any current or succeeding fiscal year or other specified period. At June 30, 2020, the Foundation did not meet the annual rent coverage ratio covenant. Under the terms of the capital lease, the failure to meet the annual rent coverage ratio may be considered an event of default. The investors waived the breach of the annual rent coverage ratio covenant for the fiscal year ending June 30, 2020. The calculation as of June 30, 2020 is included below.

Annual Rent Coverage Ratio Covenant
As of June 30, 2020

Charter revenues	\$	12,862,565
Less: Internal Funds Revenue		(87,952)
Operating Expenses		(13,941,185)
Add: Internal Funds Expense		89,926
Change in Unrestricted Net Assets		(1,076,646)
Plus:		
Interest		3,061,466
Depreciation and Amortization		1,482,205
Income Available for Annual Rent	\$	3,467,025
Maximum Annual Rent	\$	3,661,989
Annual Rent Coverage Ratio		0.95
Required Rent Coverage Ratio		1.15

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 6: CAPITAL LEASES (Continued)

The Days Cash on Hand Requirement for the calculation date of June 30, 2020 is an amount equal to at least fifty-five (55) days of Average Daily Expenses. Average Daily Expenses include operating expenses, long term debt service requirements, and payments of base rent under the lease and exclude depreciation and other non-cash items and deferred management fees for the twelve month period. At June 30, 2020 the Foundation did not meet the Days Cash on Hand Requirement. Under the terms of the capital lease, the failure to maintain unrestricted immediately available funds in an amount equal to at least fifty-five (55) days of average daily expenses may constitute and event of default. The investors waived the breach of the liquidity covenant for the fiscal year ending June 30, 2020. The calculation as of June 30, 2020 is included below.

Liquidity Covenant - Computation of Days Cash on Hand
As of June 30, 2020

Annual Total Expenses	\$	13,941,185
Less: Internal Funds Expense		(89,926)
Less: Depreciation		(1,482,205)
Add: Principal Payments		314,682
Adjusted Annual Total Expenses		12,683,736
Average Daily Expenses (based on 360 day year)		35,233
Days of Cash Required		55
Daily Cash Required		1,937,815
Cash Available as of June 30, 2020		295,806
Less: Internal Fund Cash		(34,371)
Adjusted Cash Available as of June 30, 2019	\$	261,435
Days of Cash on Hand		7

Property with a net book value of \$22,607,851 as of June 30, 2020 held under capital leases with Red Apple at Magnolia, LLC and Red Apple at Magnolia Upper, LLC has been pledged as security on Red Apple at Magnolia Upper, LLC (Landlord) financing.

Note 7: NET ASSETS (DEFICIT)

The Foundation had a decrease in net assets of approximately \$1.1 million for the year ended June 30, 2020 as well as a deficit of approximately \$7.3 million. The main driver of the overall deficit of the Foundation is the accumulated depreciation of the two facilities recorded as assets held under capital leases in the financial statements, which totals approximately \$8.0 million. The Foundation has the support of Charter Schools USA as their management company. A portion of management fees for the current fiscal year totaling approximately \$1.4 million were waived by the management company. This support will continue until the school is operating independently and is financially stable.

Shreveport Charter Foundation, Inc. Notes to the Financial Statements

Note 8: RISK MANAGEMENT

The Foundation is exposed to various risks of loss from torts; thefts of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. In the opinion of management, insurance coverage is adequate to cover any material anticipated losses.

There were no settled claims that exceeded this commercial coverage during the years ended June 30, 2020 and 2019.

Note 9: CONCENTRATIONS AND CREDIT RISK

The Foundation received approximately 80% and 84% of its total revenues from the State of Louisiana, through its charter school contract with CPSB for the years ended June 30, 2020 and 2019 respectively.

Demand deposit balances, as reflected in the bank's records, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. At June 30, 2020 and 2019, the Foundation had approximately \$47,000 and \$247,000, respectively, in uninsured deposits. Management believes the risk associated with these excess deposits is minimal.

Note 10: COMMITMENTS

Management agreement

The Foundation entered into a management agreement on February 5, 2013, with Charter Schools USA at Shreveport, LLC (CSUSA), a Florida limited liability company to develop, manage, staff and operate the Charter School. The term of the agreement was for an initial five year term consistent with the term of the charter contract with CPSB. The agreement was renewed for an additional three year term consistent with the term of the charter contract renewal. The agreement states that CSUSA shall be entitled to cost reimbursements and management fees for its services. The cost reimbursements and management fees are not to exceed 15% of revenues which shall be set forth within the approved annual budget or any amendments thereto.

For the years ended June 30, 2020 and 2019, cost reimbursements and management fee expense was \$1,881,949 and \$1,667,365, respectively. Fees totaling \$1,438,113 and \$1,667,365 were forgiven for fiscal years ended June 30, 2020 and 2019 reducing the amount of compensation payable to CSUSA to \$443,836 and \$0, respectively.

During the years ended June 30, 2020 and 2019, CSUSA made a cash contribution in the amount of \$675,945 and \$883,322, respectively, to the Foundation for general support activities.

Shreveport Charter Foundation, Inc.
Notes to the Financial Statements

Note 11: COMMITMENTS (Continued)

The Foundation owed CSUSA \$563,975 related to operation and trade payables. These amounts have been netted against amounts owed to the Foundation from CSUSA of \$672,353. The net amount of \$108,378 is reflected in the statement of financial position as due from management company.

Note 12: EMPLOYEE BENEFIT PLAN

The Foundation offered all of its full-time employees, who had attained 21 years of age, a retirement plan under Internal Revenue Code Section 401(k). Employees are allowed to contribute up to 100% of their salary, subject to certain limitations. Charter Schools USA will match 25% up to the first 6% that the employee elects. For the years ended June 30, 2020 and 2019, the Foundation's contributions to the plan totaled \$19,276 and \$17,402, respectively.

Note 13: CONTINGENCIES

The Foundation, as charter operator, is subject to Annual Academic Audits by Caddo Parish School Board. Failure to follow through with the recommendations and directives of the yearly audit will be grounds for terminations and/or non-renewal of the charter contract.

Note 14: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Foundation. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on financial markets, and (v) the effects on the economy overall, all of which are uncertain.

Note 15: SUBSEQUENT EVENTS

Management has evaluated all events and transactions that occurred after June 30, 2020 through December 23, 2020, the date the Foundation's financial statements were available to be issued.

As discussed in Note 6 the Foundation is required to have an annual rent coverage ratio of at least 1.15 to 1.00 each quarter. For the quarter ended September 30, 2020, the annual rent coverage ratio was not met. A waiver was received from the Trustee.

Supplementary Information

Shreveport Charter Foundation, Inc.
Schedule of Compensation Paid to the Board of Trustees
For the year ended June 30, 2020

There was no compensation paid to members of the Board of Trustees for the year ended June 30, 2020.

See independent auditors' report.

Shreveport Charter Foundation, Inc.
Schedule of Compensation, Benefits and Other Payments to Agency Head
For the year ended June 30, 2020

Agency Head Name: Ann Stokes

Purpose	Amount
Reimbursements	\$ -

There were no payments to the agency head for the year ended June 30, 2020.

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

To the Board of Trustees
Shreveport Charter Foundation, Inc.
Shreveport, 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 Shreveport Charter Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shreveport Charter Foundation, 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 Shreveport Charter Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Shreveport Charter Foundation, Inc.'s internal control.

Our 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2020-001 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2020-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shreveport Charter Foundation, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2020-003.

We noted certain matters that we reported to management of Shreveport Charter Foundation, Inc. in a separate letter dated December 23, 2020.

Shreveport Charter Foundation Inc.'s Response to Findings

Shreveport Charter Foundation, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Shreveport Charter Foundation, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana

December 23, 2020

Shreveport Charter Foundation, Inc.
Schedule of Findings and Responses
June 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Compliance and internal control over financial reporting:

Significant deficiency(ies) identified? Yes

Material weakness(es) identified? Yes

Noncompliance material to financial statements noted? No

A separate management letter was issued on December 23, 2020

Federal Awards

N/A

Section II – Financial Statement Findings Reported in Accordance with *Governmental Auditing Standards*

Current Year Findings and Responses

2020 – 001 MFP Revenue

Condition – During testing of Minimum Foundation Payment (MFP) revenue it was noted that the Foundation was underpaid \$118,831 for the 2020 fiscal year.

Criteria – The Foundation should recalculate the MFP revenue and ensure payments are received for the proper amount.

Cause – There are no policies and procedures in place to recalculate and monitor MFP revenue to ensure the Foundation receives the proper funding allocation.

Effect – The Foundation could be underpaid for MFP and not recognize and correct the error.

Recommendation – We recommend that the Foundation recalculate the monthly MFP allocation and compare the expected MFP to the allocation to ensure the proper amount is received.

Management’s Response and Corrective Plan – We are appreciative of the recommendation and we are updating our procedures to include a monthly checklist to ensure that the MFP allocation is being monitored in order to ensure that all the revenue the school is entitled to is received.

Shreveport Charter Foundation, Inc.
Schedule of Findings and Responses
June 30, 2020

2020 – 002 Title I Reimbursement Requests

Condition – During testing of Title I revenue it was noted that there is not a process in place to properly record receivables related to reimbursement requests. Requests for funds are not provided to the Accountant at the time the request is submitted so a receivable can be recorded. The Foundation did not recognize that a Title I Request for Funds in the amount of \$31,370 was not funded by the pass through agency because the receivable was not recorded and monitored.

Criteria – Receivables related to reimbursement requests should be recorded and monitored to ensure they are funded timely and in the proper amount.

Cause – There are no policies and procedures in place to properly record Title I receivables and monitor reimbursement requests to ensure they are properly funded in a timely manner. There is no communication between the schools and the accounting department related to the reimbursement requests to facilitate proper recording and tracking.

Effect – The Foundation may not be aware that reimbursement requests are not funded and will not be able to follow up with the pass through agency to ensure any issues are resolved. As a result the Foundation is not utilizing grant funds which have been awarded to the entity.

Recommendation – We recommend that the School Operations Administrator provide a copy of the reimbursement request and all supporting schedules and documentation to the Accountant when the request is submitted. At that time, a receivable for the amount of the request should be recorded. The receivable should be monitored to ensure the request is funded timely and in the proper amount. When the request is funded, the Accountant should contact the Administrator to inform them that the payment has been received. If the request is not funded within a reasonable period of time, the Accountant should inform the Administrator so that they can follow up and resolve any issues to ensure the request is funded.

Management's Response and Corrective Plan – We will modify our current grant reimbursement process to ensure that all reimbursement requests are submitted timely and then regularly monitored until payment of the reimbursement has been received and properly posted into our accounting system.

2020 - 003 Background Checks

Condition – Evidence of a background check being performed was not provided for one of the twenty-five teachers selected for testing.

Criteria – Louisiana Revised Statute 17:3991 requires charter school instructional staff to be subject to all provisions of state law relative to background checks applicable to the employment of public school personnel.

Shreveport Charter Foundation, Inc.
Schedule of Findings and Responses
June 30, 2020

Cause – The Foundation does not have policies and procedures in place to ensure background checks are performed for all instructional staff and are properly maintained on file.

Effect – The Foundation may not be in compliance with Louisiana Revised Statute 17:3991 Charter Contents, Renewal, and Revocation and Charter School Authorities and Limitations.

Recommendation – We recommend that the Foundation implement policies and procedures to ensure background checks are performed for all instructional staff prior to offer of employment and that evidence of the background checks be maintained on file.

Management’s Response and Corrective Plan – It is management’s standard procedure for background checks on all school personnel be performed in order to be in compliance with state law. Once the results are obtained, they are to be properly maintained in each employee’s personnel file. We will reiterate to school leadership and school operations administrator of the legal requirement for this procedure and that severe penalties could be placed on the school for non-compliance.

Section III – Federal Award Findings and Questioned Costs

N/A

Prior Year Findings

2019-001 Payroll Records

Condition – Signed offer or compensation letters could not be obtained for two teachers selected for payroll testing and three teachers were given pay increases from the original signed offer letter with no support for the pay raises.

Status – Resolved

2019 – 002 Title I Payroll Reimbursement Requests

Condition – Payroll expenditures for five of the eight employees paid with Title I program funds were duplicated and included in two reimbursement requests. Federal and state unemployment taxes that were not included in the approved budget were requested for reimbursement. These expenditures were reimbursed by the pass through entity.

Status – Resolved, however, there is a current year finding related to Title I reimbursement requests. See current year finding 2020 - 002.



Carr, Riggs & Ingram, LLC
1000 East Preston Avenue
Suite 200
Shreveport, LA 71105

Mailing Address:
P.O. Box 4278
Shreveport, LA 71134-0278

(318) 222-2222
(318) 226-7150 (fax)
CRlcpa.com

Management Letter

To the Board of Trustees
Shreveport Charter Foundation, Inc.
Shreveport, Louisiana

We have audited the financial statements of Shreveport Charter Foundation, Inc. as of and for the year ended June 30, 2020, and the related notes to the financial statements and have issued our report thereon dated December 23, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As a part of our examination, we have issued our report on the financial statements, dated December 23, 2020, and our report on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards dated December 23, 2020.

During the course of our examination, we became aware of the following matters which represent immaterial deviations of compliance or suggestions for improved internal controls:

MLC 2020 - 001 State Compliance

Year of Origination – June 30, 2020

Observation:

Louisiana Revised Statute 42:1124.2.1 requires each member and any designee of a member of a board or commission that has the authority to expend, disburse, or invest ten thousand dollars or more of funds in a fiscal year to file an annual financial statement on a form prescribed by the Louisiana Board of Ethics. According to the Louisiana Board of Ethics individuals who serve as a member of the governing authority or management board of a charter school created pursuant to Chapter 42 of Title 17 of the Louisiana Revised Statutes are required to file a Tier 3 Personal Financial Disclosure Statement. The statement must be filed on or before May 15 of each year.

One Board Member did not complete and submit to the Louisiana Board of Ethics a Tier 3 Personal Financial Disclosure Statement for 2019.

Recommendations:

We recommend that the Foundation implement a schedule which includes the deadline for submission of the financial disclosure and ensure all board members have completed the form timely and the form is submitted to the Louisiana Board of Ethics by the required deadline. We also recommend that the Foundation maintain a copy of each disclosure statement.

Views of responsible officials and corrective actions:

During each year, there are several occurrences where our board members are reminded of their requirement to properly complete and timely submit their disclosure statement. We will continue to educate and remind our board members of the legal requirement for this statement to be filed timely.

We recommend management address the foregoing issue as an improvement to operations and the administration of public programs. We are available to further explain the suggestion or help implement the recommendation.

This report is intended solely for the information and use of the Board of Trustees of Shreveport Charter Foundation, Inc., management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Although the intended use of these reports may be limited, under Louisiana Revised Statute 24:513, this report is distributed by the Office of the Louisiana Legislative Auditor as a public document.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana
December 23, 2020