

Southwest Louisiana Charter Academy
A Department of Southwest Louisiana Charter
Academy Foundation, Inc.

Financial Statements
(Series 2013 Bond Compliance)
For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Southwest Louisiana Charter Academy
A Department of Southwest Louisiana Charter
Academy Foundation, Inc.
Lake Charles, Louisiana

We have audited the accompanying financial statements of Southwest Louisiana Charter Academy (the "School"), a Department of Southwest Louisiana Charter Academy Foundation, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2017, and the statements of activities 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Louisiana Charter Academy as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the School are intended to present the financial position and change in financial position of only that portion of Southwest Louisiana Charter Academy Foundation, Inc. that is attributable to the transactions of the School. They do not purport to, and do not, present fairly the financial position of Southwest Louisiana Charter Academy Foundation, Inc. as of June 30, 2017 and the changes in its financial position for the year the ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified in respect to this matter.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
September 28, 2017

FINANCIAL STATEMENTS

**Southwest Louisiana Charter Academy
Statement of Financial Position (Deficit)
June 30, 2017**

Current Assets:

Cash and cash equivalents	\$ 518,477
Custodial funds - cash	40,738
Grants receivable	220,000
Due from management company	80,742
Due from related parties	28,164
Other receivables	52,472
Prepaid items	<u>61,232</u>
Total current assets	<u>1,001,825</u>

**Property and Equipment, less accumulated
depreciation of \$ 2,407,865**

12,030,620

Other Assets:

Restricted cash equivalents	2,199,591
Deposits	<u>8,626</u>
Total other assets	<u>2,208,217</u>

Total assets \$ 15,240,662

Current Liabilities:

Accounts payable and accrued expenses	\$ 84,503
Salaries and wages payable	298,612
Accrued interest payable	57,235
Due to related party	30,572
Custodial funds	40,738
Compensated absences	26,983
Bonds payable	<u>200,000</u>
Total current liabilities	<u>738,643</u>

Noncurrent Liabilities:

Compensated absences	8,994
Bonds payable, net of unamortized discount and bond issuance costs	<u>16,474,275</u>
Total noncurrent liabilities	<u>16,483,269</u>

Total liabilities 17,221,912

Commitments (Note 9)

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Net Assets (Deficit) - Unrestricted

(1,981,250)

Total liabilities and net assets \$ 15,240,662

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

Southwest Louisiana Charter Academy
Statement of Activities
For the Year Ended June 30, 2017

Support and Revenues:

Support:

Contributions	\$ 3,900
Grants:	
Federal	938,297
State	20,578
Minimum Foundation Program	<u>6,812,127</u>

Total support	<u>7,774,902</u>
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Revenues:

Student lunches	507
Before and aftercare fees	12,499
Other revenue	72,050
Interest income	<u>3,415</u>

Total revenues	<u>88,471</u>
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Total support and revenues	<u>7,863,373</u>
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Expenses:

Instruction	3,808,690
Support services:	
Pupil personnel services	361,288
Instruction related technology	112,493
Instructional staff training services	118,154
School Board	31,375
School administration	562,439
Fiscal services	1,403,049
Food services	286,172
Central services	18,175
Transportation	328,723
Operation of plant	971,203
Community services	42,024
Interest and amortization expense	<u>1,429,229</u>

Total expenses	<u>9,473,014</u>
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Change in net assets	(1,609,641)
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Net Assets (Deficit), beginning of year	<u>(371,609)</u>
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Net Assets (Deficit), end of year	<u>\$ <u>(1,981,250)</u></u>
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The accompanying notes to combined financial statements are an integral part of these statements.

Southwest Louisiana Charter Academy
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows from Operating Activities:

Change in net assets	\$ (1,609,641)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Provision for depreciation	715,509
Provision for amortization of bond issuance costs	17,298
Provision for amortization of bond discount	6,125
(Increase) Decrease in:	
Grants receivable	(93,388)
Due from management company	(267,024)
Due from related parties	(11,322)
Other receivables	(44,475)
Prepaid items	(55,945)
(Decrease) Increase in:	
Accounts payable and accrued expenses	(544,484)
Salaries and wages payable	(27,463)
Accrued interest payable	(1,466)
Due to related parties	(33,485)
Custodial funds	(21,569)
Compensated absences	15,147
	<u>(1,956,183)</u>
Net cash provided by (used in) operating activities	<u>(1,956,183)</u>

Cash Flows from Investing Activities:

Payments for purchase of property and equipment	<u>(318,230)</u>
Net cash provided by (used in) investing activities	<u>(318,230)</u>

Cash Flows from Financing Activities:

Payments on bonds payable	<u>(185,000)</u>
Net cash provided by (used in) financing activities	<u>(185,000)</u>

Net decrease in cash and cash equivalents, custodial funds and restricted cash equivalents	(2,459,413)
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Cash and Cash Equivalents, Custodial Funds and Restricted Cash Equivalents, beginning of year, as restated

5,218,219

Cash and Cash Equivalents, Custodial Funds and Restricted Cash Equivalents, end of year

\$ 2,758,806

Cash and cash equivalents	\$ 518,477
Custodial funds - cash	40,738
Restricted cash equivalents	<u>2,199,591</u>
	\$ <u><u>2,758,806</u></u>

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

Note 1 - Organization and Operations

Organization: Southwest Louisiana Charter Academy (the “School”) is a Department of Southwest Louisiana Charter Academy Foundation, Inc. (“SLCAF”), a Louisiana not-for-profit corporation, which was formed on April 19, 2012 exclusively for educational purposes and is comprised of respected leaders in the Lake Charles community that are committed to providing high quality educational options for the citizens of the Calcasieu Parish. The School was established as a charter school in July 2012 for students from kindergarten to eighth grade in the Louisiana Parish of Calcasieu.

Nature of activities: Southwest Louisiana Charter Academy was granted a charter by the Louisiana Board of Elementary and Secondary Education (“BESE”) in 2012 to operate a Type 2 public charter school. The current charter is in effect until June 2022. The charter may be renewed at the discretion of BESE.

The School seeks to provide educational services according to the educational standards established by law, the charter contract and the charter application/proposal; measure pupil progress toward stated goal; and participate in pupil assessment required by law, regulation and BESE policy.

The mission of the School is to ensure that each student actualizes their potential to become a self-motivated life-long learner, a responsible citizen, and a productive member of the global 21st century workforce, by ensuring that each graduating student is prepared to enter, compete, and succeed in secondary and post-secondary educational opportunities and careers of choice.

The School will implement its mission through creating a learning environment of student safety and success that incorporates individualized, research-based instruction, integrated character education, project-based learning opportunities, and community engagement.

Note 2 - Summary of Significant Accounting Policies

Basis of presentation: The financial statements presentation follows the recommendation of the Financial Accounting Standards Board in its Accounting Standards Codification (FASB ASC) No. 958, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC No. 958, the reporting organization is required to report information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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, whereby revenues are recognized when earned and expenses are recognized when incurred.

Revenue recognition: Revenues from governmental grants are recognized when allowable expenditures are made by the School. Funds received for specific purposes but not yet expended are recorded as deferred revenue.

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

The School reports no temporarily restricted or permanently restricted net assets as of June 30, 2017.

Minimum Foundation Program (MFP): The School, as a Type 2 charter school, received funding from BESE in an amount for pupils based on estimated daily attendance at school. The amount of funding received is adjusted during the school year based on October 1st and February 1st student counts and the result of any audits performed.

Cash and cash equivalents: The School considers all highly liquid or short-term investments with a maturity of three months or less when purchased to be cash equivalents. The School routinely maintains cash balances at financial institutions which exceed federally insured amounts. The School has not experienced any losses and does not believe that a significant credit risk exists as a result of this practice.

Restricted cash equivalents: At June 30, 2017, restricted cash and cash equivalents include escrow balances restricted for debt service (Note 6) and other activities as follows:

Series 2013 Debt Service Reserve Fund	\$	1,594,678
Series 2013 Revenue Fund		<u>604,913</u>
Total restricted cash equivalents	\$	<u><u>2,199,591</u></u>

Property and equipment: Property and equipment purchased or acquired are capitalized at historical cost or estimated historical cost. Donated property and equipment assets are reported at the acquisition value as of the date received. Additions, improvements, and other major renewals that significantly extend the useful life of an asset are capitalized and depreciated over the remaining useful lives of the related assets. Other costs incurred for repairs and maintenance are charged to expense as incurred. Interest expense is capitalized during the time a project is under construction and begins upon the issuance of bonds to finance the construction of a capital asset.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building	45 years
Furniture and equipment	5 years
Computer equipment and software	3 years
Improvements other than building	10 years

Prepaid items: Certain payments reflect costs applicable to services for a future accounting period and are recorded as prepaid expenses in the accompanying financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

Compensated absences: The School’s policy permits employees to accumulate earned but unused paid time off, which is eligible for payment upon separation from service. The liability for such leave is reported as incurred in the financial statements. The liability for compensated absences includes salary-related benefits, where applicable.

Bond issuance costs and provision for amortization: The School incurred certain costs in connection with the issuance of its bonds. These costs have been capitalized for financial reporting purposes and are amortized over the term of the bonds on a straight-line basis. In accordance with the guidance of Financial Accounting Standards Board in its Accounting Standards Update 2015-03, *Interest-Imputation of Interest*, the Organization has presented its bond issuance costs in the statement of financial position as a direct deduction from the bond payable.

Total provision for amortization was \$ 17,298 for the year ended June 30, 2017.

Deferred revenue: Deferred revenue is recorded in connection with resources that have been received, but not yet earned.

Functional allocation of expenses: The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among instructional and support services in the accompanying statement of activities.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

Date of management’s review: Subsequent events have been evaluated through September 28, 2017, which is the date the financial statements were available to be issued.

Note 3 - Custodial Funds - Cash

As a service to the various school club and parent organizations, the School permits these organizations to deposit their own funds in a separate School checking account. Since these funds do not belong to the School, they are also recorded as a liability in the statement of net position.

Note 4 - Grants Receivable

As of June 30, 2017, grants receivable consisted of amounts due from the following sources:

Receivables	Amount
Title I	\$ 151,370
Title II	2,088
IDEA	45,079
National School Lunch Program	21,463
	<u>\$ 220,000</u>

Note 5 - Property and Equipment

Property and equipment balances and activity for the year ended June 30, 2017, are as follows:

Land	\$ 1,232,554
Building	10,795,889
Furniture, fixtures and equipment	1,106,800
Computer equipment and software	1,227,453
Improvements other than building	<u>75,789</u>
Less: accumulated depreciation	<u>(2,407,865)</u>
Property and equipment, net	<u>\$ 12,030,620</u>

Depreciation expense for the year ended June 30, 2017 totaled \$ 715,509.

If certain governmental funding is used to acquire tangible property assets, the BESE has a reversionary interest in those assets. In the event of nonrenewal, termination, or breach of the charter school agreement, ownership of the assets would automatically revert to the BESE.

Note 6 - Due To/From Related Parties

The School is a Department of SLCAF. As of June 30, 2017, SLCAF owes the School \$ 16,842.

The School and Lake Charles College Prep (“LCCP”) are related, as they both are Departments of SLCAF. In addition, Lake Charles Charter Academy Foundation Inc. (“LCCAF”), the School, LCCP and SLCAF are related as they share common board membership. As of June 30, 2017, the financial statements include an amount due from LCCP in the amount of \$ 11,322, and an amount due to LCCAF for \$ 30,572.

Note 7 - Bonds Payable

a. Summary of Bonds Payable

Bonds payable at June 30, 2017 is comprised of the following bond issue:

\$ 17,480,000 Tax-Exempt Educational Facilities Revenue Bonds, Series 2013; due in semi-annual installments beginning December 2016 through December 2043; interest payable semiannually at rates that range from 6.625% to 8.375%.	\$ 17,295,000
Less unamortized bond discount	(162,326)
Less unamortized bond issuance costs	<u>(458,399)</u>
	<u>\$ 16,674,275</u>

Southwest Louisiana Charter Academy
Notes to Financial Statements
June 30, 2017

Note 7 - Bonds Payable (continued)

The following is a summary of changes in bonds payable for the year ended June 30, 2017:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017	Due Within One Year
Tax-Exempt Educational Facilities Revenue Bonds, Series 2013	\$ 17,480,000	\$ -	\$ 185,000	\$ 17,295,000	\$ 200,000
Discount on Series 2013 Bonds	(168,451)	-	6,125	(162,326)	-
Bond issuance costs	(475,697)	-	17,298	(458,399)	-
	<u>\$ 16,835,852</u>	<u>\$ -</u>	<u>\$ 208,423</u>	<u>\$ 16,674,275</u>	<u>\$ 200,000</u>

b. Summary of Significant Bond Terms

\$ 17,480,000 Tax-Exempt Educational Facilities Revenue Bonds, Series 2013 - Series 2013 tax-exempt bonds are for the purpose of (i) financing the acquisition, construction and equipping of certain charter school facilities, (ii) paying capitalized interest, (iii) funding a reserve fund, and (iv) paying a portion of the costs of issuance of the Series 2013 bonds. The bonds are payable in semi-annual principal installments through December 2043. Interest ranging from 6.625% to 8.375% is payable semiannually on the fifteenth day of June and December.

The bonds are subject to mandatory redemption at a redemption price equal to the principal amount plus accrued interest to the redemption date subject to certain events as outlined in the bond indenture. The bonds are not subject to a premium at optional redemption after December 15, 2023.

The annual debt service requirement for the Series 2013 Educational Facilities Revenue Bonds consists of:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 200,000	\$ 1,393,219	\$ 1,593,219
2019	215,000	1,379,803	1,594,803
2020	225,000	1,365,394	1,590,394
2021	240,000	1,350,156	1,590,156
2022	255,000	1,334,091	1,589,091
2023-2027	1,590,000	6,368,381	7,958,381
2028-2032	2,320,000	5,639,906	7,959,906
2033-2037	3,455,000	4,504,172	7,959,172
2038-2042	5,185,000	2,777,128	7,962,128
2043-2044	3,610,000	371,431	3,981,431
	<u>\$ 17,295,000</u>	<u>\$ 26,483,681</u>	<u>\$ 43,778,681</u>

Note 7 - Bonds Payable (continued)

The trust indenture requires reserve funds equal to \$ 1,594,678 for the Series 2013 bonds. As of June 30, 2017, the reserve fund account balance was sufficient to satisfy this requirement. The trust indenture also contains a financial covenant which requires the School to maintain a long-term debt service coverage ratio of 1.25 to 1.00. The School did not meet this financial covenant because the long-term debt service coverage ratio for the year ended June 30, 2017 is as follows:

<u>Covenant</u>	<u>Requirement</u>	<u>Calculated</u>
Long-term debt service coverage ratio	At least 1.25	0.33

In order to secure the payment in full of the bonds and to secure the performance by the School to all covenants, the School grants the Louisiana Public Facilities Authority (the "Authority") a security interest in substantially all their property and equipment. The School also pledges to the Authority a security interest in all revenues, as well as the right, title and interest in the escrow accounts.

Note 8 - Income Taxes

Southwest Louisiana Charter Academy Foundation, Inc. is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501 (a) of the Internal Revenue Code.

Note 9 - Commitments

Management agreement: The School has a formal agreement with Charter Schools USA at Southwest Louisiana, LLC ("CSUSA") to manage, staff, and operate the School. The cost reimbursements and management fees (the "fee") range from \$ 1,422,391 for 2018 to \$ 1,911,575 for 2028 if the School obtains a letter grade of "B" or above and at lesser amounts for grades below "B" as defined in the agreement. For the year ended June 30, 2017, the amount of compensation received by CSUSA was \$ 1,395,181 which represents compensation for operating the School. Extension of the agreement shall correspond to the length of the charter and shall be approved by the Board of Directors.

At June 30, 2017, the School had an amount due from the management company for \$ 80,742.

Post-retirement benefits: The School does not provide post-retirement benefits to retired employees.

Note 10 - Employee Benefit Plan

During the year ended June 30, 2017, the School offered all of its full-time employees, who had attained 21 years of age, a retirement plan under Internal Revenue Code Section 401(k). The employee is allowed to contribute up to a maximum of 100% of their annual gross compensation, subject to certain limitations. The School contributed a matching amount of \$ 4,190 for the year ended June 30, 2017.

Note 11 - Net Assets (Deficit)

The School ended the year with a net asset (deficit) of \$ (1,981,250). Included in this deficit is accumulated depreciation of \$ 2,407,865. The School ended the year with cash and cash equivalents of \$ 518,477. Currently, the School does not have any plans to restructure debt, dispose of assets, or obtain additional funding sources. It may however, upon approval of their management company, delay payments to the management company should the School have cash needs. The School also has \$ 600,000 held by their trustee which is to be used for their debt service payments. This will help the School's cash position in the current school year. The School continues to focus on academic achievement as well as plans to increase enrollment which have included the addition of a Pre-K which was implemented in the current school year.

Note 12 - Supplemental Cash Flow Information

Supplemental Disclosure of Cash Flow Information

	<u>2017</u>
Cash received during the year for - Interest income	\$ 3,415
Cash paid during the year for - Interest expense	\$ 1,405,806