

**RIGHT STEP ACADEMY OF EXCELLENCE
CHARTER SCHOOL**

Annual Financial Report

For the Period July 1, 2001 to August 15, 2002

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9.1.04

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July 27, 2004

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Right Step Academy of Excellence Charter School
Opelousas, Louisiana

We were engaged to audit the accompanying statement of financial position of the Right Step Academy of Excellence Charter School (the Academy) as of August 15, 2002, and the related statements of activities and cash flows for the 14 month period then ended. These financial statements are the responsibility of the Organization's Management.

We are unable to obtain certain written representations from management as required by generally accepted auditing standards. In addition, we were unable to apply auditing procedures to the financial records because supporting invoices and records for most revenue and expenditures could not be located.

The accompanying financial statements have been prepared assuming the Academy will continue as a going concern. As discussed in Note 6 to the financial statements, the Academy was closed in August 2002 and operations turned over to the BESE Board for liquidation due to various administrative and operational problems that could not be resolved. Generally Accepted Accounting Principles require organizations to report assets and liabilities on the liquidation basis (net realizable and carrying values) when the termination of the organization is imminent. The effects on the financial statements of this departure from those accounting principles are not reasonably determinable.

Generally accepted accounting principles require organizations to record property and equipment at cost or net realizable value and record depreciation expenses. The records for property and equipment and corresponding depreciation costs were incomplete and not properly recorded on the accompanying financial statements. The effects on the financial statements of this departure are not reasonably determinable.

Generally accepted accounting principles require organizations to report expenses in functional categories. The records for expenses were not organized in a manner that permitted presentation by functional categories.

Board of Directors
Right Step Academy of Excellence Charter School

Because of the limitations on the scope of our work explained in the second paragraph, we are unable to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with Government Auditing Standards, we have also issued our report dated July 27, 2004, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this report in considering the results of our audit.

Rozier Harrington + McKay

ROZIER, HARRINGTON & MCKAY
Certified Public Accountants

Right Step Academy of Excellence Charter School
Statement of Financial Position
August 15, 2002

Assets

Current Assets:

Cash and cash equivalents	\$	600
Deposits		<u>3,250</u>

Total Current Assets		3,850
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Fixed assets, net of accumulated depreciation		<u>-</u>
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Total Assets	\$	<u><u>3,850</u></u>
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Liabilities and Net Assets

Current Liabilities:

Accounts payable and accrued expenses	\$	1,127
Bank overdraft		<u>5,240</u>

Total Liabilities - All Current		6,367
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Net Assets:

Unrestricted net assets		(2,517)
Temporarily restricted net assets		<u>-</u>

Total Net Assets		<u>(2,517)</u>
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Total Liabilities and Net Assets	\$	<u><u>3,850</u></u>
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The accompanying notes are an integral part of the financial statements.

Right Step Academy of Excellence Charter School
Statement of Activities
For the 14 Month Period Ended August 15, 2002

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<i>Revenue and Support:</i>				
State program revenues	\$ -	\$ 495,480	\$ -	\$ 495,480
Federal program revenues	-	-	-	-
Other income	1,254	-	-	1,254
Net asset released from restricted	<u>533,535</u>	<u>(533,535)</u>	<u>-</u>	<u>-</u>
 Total revenue and support	 534,789	 (38,055)	 -	 496,734
<i>Expenses:</i>				
Salaries and wages	295,838	-	-	295,838
Rents	45,233	-	-	45,233
Supplies	15,811	-	-	15,811
Professional services	45,983	-	-	45,983
Legal and accounting services	19,724	-	-	19,724
Employee benefits	44,362	-	-	44,362
Insurance	5,274	-	-	5,274
Repairs and maintenance	2,180	-	-	2,180
Telephone and utilities	6,743	-	-	6,743
Miscellaneous	29,075	-	-	29,075
Travel and education	<u>27,083</u>	<u>-</u>	<u>-</u>	<u>27,083</u>
 Total expenses	 <u>537,306</u>	 <u>-</u>	 <u>-</u>	 <u>537,306</u>
 Increase (decrease) in net assets	 (2,517)	 (38,055)	 -	 (40,572)
 Net assets - beginning of year	 <u>-</u>	 <u>38,055</u>	 <u>-</u>	 <u>38,055</u>
 Net assets - end of year	 <u>\$ (2,517)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ (2,517)</u>

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

Right Step Academy of Excellence Charter School
Statement of Cash Flows
For the 14 Month Period Ended August 15, 2002

Cash flows from operating activities:

Change in net assets	\$ (40,572)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:	
Depreciation	-
Change in operating assets and liabilities:	
(Increase)decrease in deposits	(3,250)
(Increase)decrease in accounts receivable	32,837
Increase (decrease) in accounts payable and accrued expenses	<u>(32,302)</u>
Net cash provided (used) by operating activities	<u>(43,287)</u>

Cash flows from investing activities:

Purchase of new equipment	<u>-</u>
Net cash provided (used) by investing activities	-

Cash flows from financing activities:

Increase in cash overdraft	5,240
Increase in notes payable	<u>-</u>
Net cash provided (used) by financing activities	<u>5,240</u>
Net increase (decrease) in cash and cash equivalents	(38,047)
Cash and cash equivalents - beginning of year	<u>38,647</u>
Cash and cash equivalents - end of year	<u><u>\$ 600</u></u>

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

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL

Notes to Financial Statements
August 15, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Right Step Academy of Excellence Charter School (the Academy) was created by Louisiana Revised Statute (LSA-R.S.) 17:3972 to provide a learning environment that will improve pupil achievement. The Academy is a Type-2 charter school under State Law. The charter is valid for an initial period of five years commencing on August 1, 1999, and ending on August 31, 2004, subject to renewal after the five-year period. The Academy is governed by a Board of Directors and managed by a superintendent employed by the Directors. As explained in Note 6, the Academy was closed in August 2002, and its operations were turned over to the control of the Louisiana State Board of Elementary and Secondary Education (BESE Board).

Basis of Presentation:

The financial statements have been prepared on the accrual basis in conformity with generally accepted accounting principles. Preparation of financial statements in conformity with generally accepted accounting principles requires certain estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

As required by Statement of Financial Accounting Standards (SFAS) No. 117, net assets and activities are classified in the following manner:

Unrestricted – Net assets that are not subject to significant donor imposed restrictions.

Temporarily Restricted – Net assets subject to certain donor-imposed restrictions and restrictions imposed by grant agreements. Temporary restrictions apply when the restriction can be fulfilled by actions of the School or by the passage of time.

Permanently Restricted – Net assets subject to donor imposed restrictions that require these assets to be maintained in a perpetual manner.

Income Taxes:

The Academy is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Furthermore, the Academy is not classified as a “private foundation” by the Internal Revenue Service.

Promises to Give:

As required by generally accepted accounting principles, unconditional promises to give are reported as revenue when the promise is made. Conditional promises to give are recognized as revenue when the necessary conditions are fulfilled.

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL

Notes to Financial Statements August 15, 2002

Cash and Cash Equivalents:

Cash and cash equivalents represent bank deposits and highly liquid investments with original maturities of three months or less.

Fixed Assets:

Fixed assets are recorded at cost on the date of acquisition. Donated property is recorded at the estimated fair value upon receipt. Depreciation is computed using the straight-line method over estimated useful lives ranging from 5 to 30 years.

Assets donated with explicit restrictions regarding their use and contributions of cash earmarked to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Academy reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Academy reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Compensated Absences:

Employees are allowed to accumulate and carry over a maximum of 40 hours of vacation time per year; however, it was not practical to estimate the amount of compensated absences payable at August 15, 2002, and no liability for compensated absences have been reported in the accompanying financial statements.

Functional Expenses:

Generally accepted accounting principles (GAAP) require expenses to be presented on a functional basis; however, the Academy's accounting system does not accumulate expenses in a functional manner. Accordingly, expenses have not been presented in the manner required by GAAP.

NOTE 2 – CASH

At August 15, 2002, the Academy had cash and cash equivalents (book balances) as follows:

Non-interest-bearing demand deposits	\$ -
Petty cash	<u>600</u>
Total	<u>\$ 600</u>

At year-end, the Academy had deposits totaling \$1,690 (bank balances). The bank balances were fully insured by the Federal Deposit Insurance Corporation.

NOTE 3 – RETIREMENT SYSTEM

Plan Description: Substantially all Academy employees participate in either the Teachers' Retirement System or the School Employees' Retirement System (the Systems), which are cost sharing, multiple-employer public employee retirement systems (PERS). Benefit provisions are ultimately approved and amended by the Louisiana Legislature.

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL

Notes to Financial Statements

August 15, 2002

NOTE 4 – RELATED PARTY TRANSACTIONS

The Academy leases a copy machine from the Cathedral of Praise, a non-profit corporation, in the amount of \$400 per month. The Superintendent of the Academy is the registered agent and an officer of the Cathedral of Praise. His immediate family members are also agents of the Cathedral of Praise.

During the period from July 1, 2001 through August 15, 2002, Mr. Ronnie Banks, Administrator, received a salary of \$102,000, for which no supporting documentation was found. In addition, the Academy employed and paid the Administrator's wife \$21,456 and son \$3,889 for the period July 1, 2001 through August 15, 2002.

NOTE 5 – LEASES

The Academy has entered into several leases. They are listed below with the total rents that were paid for the period under audit:

Lease agreement with The Church of the Living God for \$4,200 per month for the period August 13, 2001 to August 12, 2002. This lease was for land and building that is used. The Academy only paid for nine months' lease.	\$ 37,800
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Lease agreement with Zion Baptist Church for \$1,500 per month for the period July 17, 2002 to June 14, 2003. This lease is for campus building and cafeteria that is used. The Academy only paid for one month's lease.	1,500
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Lease agreement with Ricoh Leasing for \$316 per month for 60 months beginning March 27, 2002. This lease is for office equipment that is being used. The Academy only paid for one month's lease.	316
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Lease agreement with Cathedral of Praise for \$400 per month for 12 months beginning July 1, 2001. This lease is for a copy machine that is being used. The Academy only paid for one month's lease.	400
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Lease agreement with Mack Beard, Jr. for \$500 per month for 2 months beginning May 22, 2002. This lease is for office buildings that the Academy is using. The Academy paid both payments.	<u>1,000</u>
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Total lease expense	<u>\$ 41,016</u>
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No rents will be paid in the future due to the fact the Academy was closed in August 2002.

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL

Notes to Financial Statements
August 15, 2002

NOTE 6 – SCHOOL CLOSURE

The financial statements have been prepared assuming the Academy will continue as a going concern. In August 2002, the Academy was closed and control of operations was turned over to the BESE Board for liquidation due to various administrative and operational problems that could not be resolved.

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July 27, 2004

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

To the Board of Directors
Right Step Academy of Excellence Charter School

We were engaged to audit the financial statements of the Right Step Academy of Excellence Charter School for the period July 1, 2001 to August 15, 2002, and have issued our report thereon dated July 27, 2004. We were engaged to conduct 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.

COMPLIANCE

As part of obtaining reasonable assurance about whether Right Step Academy of Excellence Charter School's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 several instances on noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as item 2002-02.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable

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Board of Directors
Right Step Academy of Excellence Charter School

conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Academy's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2002-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be a material weakness.

This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.



ROZIER, HARRINGTON & MCKAY
Certified Public Accountants

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL
Summary of Findings and Questioned Cost
For the 14 Month Period Ended August 15, 2002

We were engaged to audit the financial statements of the Right Step Academy of Excellence Charter School for the period July 1, 2001 to August 15, 2002, and have issued our report thereon dated July 27, 2004. 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. Our report expresses a disclaimer of opinion on the financial statements for the period ending August 15, 2002.

SECTION I – SUMMARY OF AUDITOR’S RESULTS:

- The Independent Auditors’ Report on the financial statements for the Right Step Academy of Excellence Charter School as of August 15, 2002, expressed a disclaimer of opinion.
- Reportable conditions were noted in the audit, and these reportable conditions are considered to be material weaknesses as required to be reported in accordance with Government Auditing Standards.
- The results of the audit disclosed instances of noncompliance that are considered to be material to the financial statements of the Right Step Academy of Excellence Charter School.

SECTION II – FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS

Finding 2002-01: Financial Reporting / Internal Control

The Academy’s financial records for the period ended August 15, 2002, did not accurately report financial position or results from operations. Deficiencies effecting the financial records included numerous departures from the basic concepts of proper financial management. Some of the more significant of these departures are described as follows:

- Reporting of expenses was not organized in a manner that permitted presentation by functional categories as required by generally accepted accounting principles.
- Financial records provided by the Academy do not contain personnel records in sufficient detail to document payroll expenses or permit the computation of compensated absences payable.
- Records provided by the Academy did not include an operating budget or any evidence that a budget had been adopted. Furthermore, financial statements prepared by the Academy did not include budget comparisons.
- Financial statements were not presented on a liquidation basis.
- Appears prior year audit adjusting entries were not made. Therefore, some accounts could not be reconciled.
- No documentation was available to support a substantial portion of the Academy’s expenditures. There was no documentation of any of the payroll expenditures. We tested and sampled our expenditures and found no support for 24 of the 165 items reviewed. In addition, no cancelled checks were found for any disbursement.

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL
Summary of Findings and Questioned Cost
For the 14 Month Period Ended August 15, 2002

A summary of undocumented disbursements are as follows:

	<u>Number</u>	<u>Dollar Amount</u>
Total population non-payroll	408	\$241,468
Total population tested	165	\$144,732
Total non-supported transactions	24	\$18,486
Undocumented Disbursement Rate	15%	13%
Projected Undocumented Disbursement For non-payroll items	59	\$30,842
Payroll Undocumented – 100% Of Population	173	\$295,838
Total Undocumented items	<u>232</u>	<u>\$326,680</u>

Due to the scope limitations that prevented expressing an opinion on the financial statements, it was impossible to thoroughly document the Academy's internal control structure; however, the condition of the financial records indicates that internal controls were inadequate or disregarded.

Finding 2002-02: Legal Compliance

A completed copy of the Louisiana Compliance Questionnaire was not provided in connection with this engagement. Furthermore, scope limitations that prevented expressing an opinion on the financial statements have also restricted the analysis of compliance issues. Findings related to compliance were as follows:

2002-02(A): Administration

Charter schools are subject to a variety of administrative requirements imposed by State Law. These requirements are summarized as follows:

- Compensation for members of the governing board is limited to reimbursement of actual expenses.
- Members of the governing board and school administration are required to meet certain qualifications.
- Management and accounting practices are required to comply with provisions prescribed by the school's charter.
- Charter schools are required to maintain insurance coverage as specified by the Charter.
- Charter schools are not allowed to affiliate with any religion or religious organization or institution.

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL
Summary of Findings and Questioned Cost
For the 14 Month Period Ended August 15, 2002

Due to the inadequate nature of the Academy's financial records described in Finding 2002-01, it was not possible to fully ascertain compliance with the provisions described above. The condition of the financial records does indicate that the school has not established suitable management and accounting procedures.

2002-02(B): Student Admissions

Charter schools are required to adhere to specific admission policies; however, the records provided by the Academy did not provide sufficient details to identify the required admission policies or to assess compliance with the admission requirements.

2002-02(C): Instructional Staff

According to the provisions of state law, at least 75% of the Academy's instructional staff must be certified by BESE, or must be actively seeking certification. In addition, uncertified personnel must hold a bachelor's degree or have at least ten years experience in the field relating to the teaching position for which the individual was hired. All attempts to locate records necessary to assess compliance with these requirements were unsuccessful.

2002-02(D): Fixed Assets

As a Type 2 charter school, the Academy must maintain records of fixed assets that clearly identify those assets acquired with public funds. The Academy has a list of fixed assets but it does not indicate whether the assets were acquired with public or private funds.

2002-02(E): Count of Students

Charter schools are required to submit a student count to the local school board or the Department of Education. Students included in the count must be pursuing a regular high school diploma or a general education development certificate. Available records did not provide documents related to the student count; therefore, it was not possible to consider compliance with these requirements.

2002-02(F): Open Meetings Law

Charter schools are required to comply with the State's open meetings law; however, records necessary to document compliance were not available. Furthermore, auditors were unable to locate minutes of the Board's meetings.

2002-02(G): Public Records Act

Due to the inadequate nature of the Academy's records as described in Finding 2002-01, the Academy has not maintained its records in the manner required by State Law.

2002-02(H): Public Bid Law

Due to the inadequate nature of the Academy's records as described in Finding 2002-01, it is impossible to determine if the Academy has complied with the public bid law.

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL
Summary of Findings and Questioned Cost
For the 14 Month Period Ended August 15, 2002

2002-02(I): State Audit Law

The School did not comply with the provisions of the State Audit Act. The audit for the year ended June 30, 2001, was not submitted on a timely basis.

2002-02(J): Nepotism and Abuse

State law prohibits the hiring of related parties and requires reasonableness of salaries paid to employees. During the period under audit the Academy paid its Administrator \$102,000, for which we found no documentation. In addition the Academy employed both the Administrator's wife and son. The wife was paid \$21,456 and the son \$3,889 during the period July 1, 2001 through August 15, 2002.

2002-02(K): Related Party Lease

The Academy leases a copy machine from the Cathedral of Praise, a non-profit corporation, in the amount of \$400 per month. The Superintendent of the Academy is the registered agent and an officer of the Cathedral of Praise. His immediate family members are also agents of the Cathedral of Praise.

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL
Management's Corrective Action Plan
For the Period Ended August 15, 2002

<u>SECTION I</u> INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.	
<u>Findings</u>	<u>Response</u>
<p><u>2002-01, Financial Reporting / Internal Control:</u></p> <p>The Academy's financial records for the period ended August 15, 2002, did not accurately report financial position or results from operations. Deficiencies effecting the financial records included numerous departures from the basic concepts of proper financial management.</p> <p><u>2002-02, Legal Compliance:</u></p> <p>A completed copy of the Louisiana Compliance Questionnaire was not provided in connection with this engagement. Furthermore, scope limitations that prevented expressing an opinion on the financial statements have also restricted the analysis of compliance issues.</p>	<p><u>2002-01, Financial Reporting / Internal Control:</u></p> <p>BESE has reacted to continuing problems by assuming control and closing the School.</p> <p><u>2002-02, Legal Compliance:</u></p> <p>BESE has reacted to continuing problems by assuming control and closing the School.</p>
<u>SECTION II</u> INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS.	
<u>Findings</u>	<u>Response</u>
Not Applicable	Not Applicable

RIGHT STEP ACADEMY OF EXCELLENCE CHARTER SCHOOL
Summary of Prior Year Findings
For the Period Ended August 15, 2002

<u>Prior Finding</u>	<u>Current Status</u>
Possible Violation of the Provisions of the Louisiana Code of Governmental Ethics	BESE has reacted to continuing problems by assuming control and closing the School.
Inadequate Documentation for Travel Expenses	BESE has reacted to continuing problems by assuming control and closing the School.
Inadequate Supporting Documentation for Vendor Disbursements	BESE has reacted to continuing problems by assuming control and closing the School.
Separate Accounting of Title I Activity	BESE has reacted to continuing problems by assuming control and closing the School.
Budget is not Classified According to Function.	BESE has reacted to continuing problems by assuming control and closing the School.