

Shreveport Charter Foundation, Inc.
Shreveport, Louisiana

Financial Statements
June 30, 2014



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June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
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 statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the period of inception (February 27, 2012) through June 30, 2014, and the related notes to 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shreveport Charter Foundation, Inc. as of June 30, 2014, and the changes in its

net assets and its cash flows for the period of inception (February 27, 2012) through June 30, 2014, 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 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014, 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 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 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, LLC

CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana
December 30, 2014



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

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, 2014, and the related statements of activities and cash flows for the period of inception (February 27, 2012) through June 30, 2014, and the related notes to financial statements, and have issued our report thereon dated December 30, 2014.

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 the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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CARR, RIGGS & INGRAM, LLC

Shreveport, Louisiana
December 30, 2014

Shreveport Charter Foundation, Inc.
Statement of Financial Position

<i>June 30,</i>	2014
Assets	
Current assets	
Cash	\$ 862,713
Grant and other receivables	32,462
Prepaid expenses and other current assets	21,905
Total current assets	917,080
Property and equipment	
Property held under capital leases	13,059,388
Furniture, fixtures and equipment	89,640
Less: accumulated depreciation	(780,959)
Net property and equipment	12,368,069
Deposits	34,000
Total assets	\$ 13,319,149
Liabilities and Net Assets (Deficit)	
Current liabilities	
Accounts payable	\$ 17,510
Capital lease payable, current	137,097
Accrued expenses	596,373
Total current liabilities	750,980
Long-term liabilities	
Interest payable	315,256
Capital lease payable, long-term	12,852,389
Total long-term liabilities	13,167,645
Total liabilities	13,918,625
Net assets (deficit)	
Unrestricted	(599,476)
Temporarily restricted	-
Permanently restricted	-
Total net assets (deficit)	(599,476)
Total liabilities and net assets (deficit)	\$ 13,319,149

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

Shreveport Charter Foundation, Inc.
Statement of Activities

*For the period of inception (February 27, 2012)
through June 30, 2014*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Minimum Foundation Program	\$ 5,467,078	\$ -	\$ -	\$ 5,467,078
Federal grants	160,516	-	-	160,516
Other income	289,124	-	-	289,124
Total support and revenue	5,916,718	-	-	5,916,718
Expenses				
Program services				
Regular program expenditures	2,628,242	-	-	2,628,242
Special education programs	133,459	-	-	133,459
Other instructional programs	59,674	-	-	59,674
Pupil support services	74,753	-	-	74,753
Instructional staff services	400	-	-	400
School administration	541,382	-	-	541,382
Operation and maintenance of plant services	437,151	-	-	437,151
Food service operations	235,824	-	-	235,824
Interest expense	1,126,455	-	-	1,126,455
Management and general				
Business services	141,223	-	-	141,223
General administration	1,134,937	-	-	1,134,937
Central services	2,694	-	-	2,694
Total expenses	6,516,194	-	-	6,516,194
Change in net assets	(599,476)	-	-	(599,476)
Net assets, beginning of period	-	-	-	-
Net assets (deficit), end of period	\$ (599,476)	\$ -	\$ -	\$ (599,476)

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

Shreveport Charter Foundation, Inc.
Statement of Cash Flows

<i>For the period of inception (February 27, 2012) through June 30,</i>	2014
Cash flows from operating activities	
Change in net assets	\$ (599,476)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	780,959
(Increase) decrease in	
Grant and other receivables	(32,462)
Prepaid expenses and other current assets	(21,905)
Deposits	(34,000)
Increase (decrease) in	
Accounts payable	17,510
Accrued expenses	596,373
Interest payable	315,256
Net cash provided by operating activities	<u>1,022,255</u>
Cash flows from investing activities	
Purchase of property and equipment	(89,640)
Net cash used in investing activities	<u>(89,640)</u>
Cash flows from financing activities	
Payments on capital leases	(69,902)
Net cash used in financing activities	<u>(69,902)</u>
Net increase in cash	862,713
Cash - beginning of period	-
Cash - end of period	<u>\$ 862,713</u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest	<u>\$ 722,070</u>
Noncash operating and investing activities	
Increase in property held under capital leases	<u>\$ 13,059,388</u>
Increase in capital lease payable	<u>\$ 13,059,388</u>

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

Shreveport Charter Foundation, Inc. Notes to Financial Statements

NOTE 1: NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Shreveport Charter Foundation, Inc. (the Foundation), a Louisiana not-for-profit 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 from kindergarten to sixth grade in Caddo Parish, Louisiana. The Charter School will expand to serve students from kindergarten to seventh grade in the second year of operations and plans to continue to expand to serve students from kindergarten to eighth grade in the third year of operations. The charter agreement with CPSB is for an initial term of five years, contingent upon the results of the reporting requirements at the end of the third year as provided in LA R.S. 17:3998 (A)(2) and may be renewed at the discretion of CPSB.

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.

A summary of the Foundation's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

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. Accordingly, net assets of the Foundation and changes therein, may be classified and reported as follows, as financial circumstances require:

Unrestricted net assets - These are net assets that are not subject to donor-imposed stipulations. Some unrestricted net assets may be designated by the governing board of the Foundation for specific purposes.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, donors permit all or part of the income earned on these assets to be used for general or specific purposes.

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. All significant receivables, payables and other liabilities are reflected.

Shreveport Charter Foundation, Inc. Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit balances and represent 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, 2014.

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 during the period from inception (February 27, 2012) through June 30, 2014.

Revenue Recognition

All 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 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 withheld 2% of the gross funding for the period from inception (February 27, 2012) through June 30, 2014, totaling \$110,561.

Property and Equipment

All acquisitions of property and equipment and betterments 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 (three to twenty years). Assets purchased with public funds will revert to the Louisiana Board of Elementary and Secondary Education at the time this agreement is terminated.

Shreveport Charter Foundation, Inc. Notes to Financial Statements

Depreciation expense, which includes amortization expense of capital lease assets, incurred for the period of inception (February 27, 2012) through June 30, 2014, was \$780,959.

Leasing arrangements and amortization

The Foundation leases the school building and substantially all of the furniture, fixtures and equipment utilized by the Charter School under capital leases as described in Note 5. 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 expense for 2014, as described above.

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.

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. The Foundation has no open tax years prior to 2011.

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 compensated absences includes salary-related benefits, where applicable.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

Advertising costs are charged to expense when incurred. Advertising expense for the period of inception (February 27, 2012) through June 30, 2014, was approximately \$138,000.

Shreveport Charter Foundation, Inc.
Notes to Financial Statements

Date of Management's Review

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 30, 2014, and determined there were no subsequent events that required disclosure.

NOTE 2: CONCENTRATIONS AND CREDIT RISK

The Foundation received approximately 92%, of its total revenues from the State of Louisiana, subject to its charter school contract with CPSB for the period of inception (February 27, 2012) through June 30, 2014.

Demand deposit balances, as reflected in the bank's records, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2014, the Foundation had approximately \$623,000 in uninsured deposits. Management believes the risk associated with these excess deposits is minimal.

NOTE 3: GRANT AND OTHER RECEIVABLES

At June 30, 2014, grant and other receivables totaled \$32,462, which are considered fully collectible.

NOTE 4: ACCRUED EXPENSES

Due to management company	\$ 4,259
Payroll and benefits	484,122
Accrued interest, current	89,129
Other	18,863
	\$ 596,373
	\$ 596,373

NOTE 5: CAPITAL LEASES

Following is a summary of property and equipment held under capital leases:

Real estate and building	\$ 12,278,567
Furnitures, fixtures and equipment	780,821
	13,059,388
Less: accumulated amortization	(767,136)
	\$ 12,292,252

Shreveport Charter Foundation, Inc.
Notes to Financial Statements

The Foundation had the following capital leases payable at June 30, 2014:

Capital lease payable to Red Apple at Magnolia, LLC for real property in the 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, maturing on June 1, 2033. \$ 12,216,597

Capital lease payable to Red Apple at Magnolia, LLC for equipment in the amount of \$780,821, dated June 30, 2013, with an effective interest rate of 5.845%, payable in monthly payments of \$4,121 from July 2013 to June 2014, and \$14,886 from July 2014 to June 2019, including interest, maturing May 31, 2019.

	772,889
Total capital leases payable	12,989,486
Less current maturities	(137,097)
Long-term capital leases payable	\$ 12,852,389

Scheduled annual lease payments for the fiscal years ending June 30, are:

2015	\$ 1,544,345
2016	1,564,829
2017	1,585,625
2018	1,606,733
2019	1,628,153
Thereafter	22,731,527
Total minimum lease payments	30,661,212
Less interest	(17,671,726)
Present value of minimum lease payments	\$ 12,989,486

NOTE 6: 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 period of inception (February 27, 2012) through June 30, 2014.

NOTE 7: 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 is for an initial term consistent with the term



Shreveport Charter Foundation, Inc.
Notes to Financial Statements

of the charter contract with CPSB and can be renewed for an additional term provided CSUSA performs in accordance with the provision of their agreement with the Foundation. The agreement states that CSUSA shall be entitled to a management fee for its services. The management fee is not to exceed 15% of revenues which shall be set forth within the approved annual budget or any amendments thereto.

For the period from inception (February 27, 2012) through June 30, 2014, the amount of compensation received by CSUSA was \$291,175.

NOTE 8: EMPLOYEE BENEFIT PLAN

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). 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% employee elects.

Supplemental Information



Shreveport Charter Foundation, Inc.
Schedule of Compensation Paid to the Board of Trustees
For the period of inception (February 27, 2012) through June 30, 2014

Board Member

Ann Stokes
Melva Turner-Williams
Delano Wilson
Keith Hanson
Ernest Lampkins
Phillip Rozeman
Cynthia Peatross
Erica Bryant
Zazell Dudley

There was no compensation paid to Board of Trustees for the period of inception (February 27, 2012) through June 30, 2014.

Shreveport Charter Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Compliance and internal control over financial reporting:

 Significant deficiency(ies) identified? No

 Material weakness(es) identified? No

 Noncompliance material to financial statements noted? No

Federal Awards

N/A

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

Current Year Findings and Responses

None

Section III – Federal Award Findings and Questioned Costs

N/A

Prior Year Findings

N/A