

Lake Charles Charter Academy
Foundation, Inc.

Financial Statements
(Series 2011 Bond Compliance)
For the Year Ended June 30, 2017

Lake Charles Charter Academy Foundation, Inc.

Financial Statements
(Series 2011 Bond Compliance)
For the Year Ended June 30, 2017

Table of Contents

| | |
|---------------------------------|------|
| Independent Auditor's Report | 1-2 |
| Financial Statements | |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | 6-12 |

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Lake Charles Charter Academy Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2017, and the related 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.

Lake Charles Charter Academy Foundation, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Charles Charter Academy Foundation, Inc. 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.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
September 28, 2017

FINANCIAL STATEMENTS

Lake Charles Charter Academy Foundation, Inc.
Statement of Financial Position
June 30, 2017

Current Assets:

| | |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 2,819,983 |
| Custodial funds - cash | 40,538 |
| Grants receivable | 144,918 |
| Other receivables | 28,453 |
| Prepaid items | <u>31,928</u> |

| | |
|----------------------|------------------|
| Total current assets | <u>3,065,820</u> |
|----------------------|------------------|

Property and Equipment, less accumulated depreciation of \$ 2,682,434

11,939,624

Other Assets:

| | |
|-----------------------------|---------------|
| Restricted cash equivalents | 1,394,281 |
| Due from related party | 1,078,422 |
| Deposits | <u>11,462</u> |

| | |
|--------------------|------------------|
| Total other assets | <u>2,484,165</u> |
|--------------------|------------------|

| | |
|--------------|----------------------|
| Total assets | <u>\$ 17,489,609</u> |
|--------------|----------------------|

Current Liabilities:

| | |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 128,725 |
| Salaries and wages payable | 353,681 |
| Due to management company | 35,629 |
| Accrued interest payable | 48,931 |
| Deferred revenue | 15,368 |
| Custodial funds | 40,538 |
| Compensated absences | 35,252 |
| Current portion of bonds payable | <u>195,000</u> |

| | |
|---------------------------|----------------|
| Total current liabilities | <u>853,124</u> |
|---------------------------|----------------|

Noncurrent Liabilities:

| | |
|--|-------------------|
| Compensated absences | 11,750 |
| Bonds payable, net of unamortized discount and bond issuance costs | <u>13,918,111</u> |

| | |
|------------------------------|-------------------|
| Total noncurrent liabilities | <u>13,929,861</u> |
|------------------------------|-------------------|

| | |
|-------------------|------------|
| Total liabilities | 14,782,985 |
|-------------------|------------|

Commitments (Note 8)

-

Net Assets - Unrestricted

2,706,624

| | |
|----------------------------------|----------------------|
| Total liabilities and net assets | <u>\$ 17,489,609</u> |
|----------------------------------|----------------------|

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

Lake Charles Charter Academy Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2017

Support and Revenues:

| | | |
|----------------------------|--|-------------------|
| Support: | | |
| Contributions | | \$ 8,300 |
| Grants: | | |
| Federal | | 960,405 |
| Minimum Foundation Program | | <u>9,471,377</u> |
| Total support | | <u>10,440,082</u> |
| Revenues: | | |
| Student lunches | | 3,794 |
| Before and aftercare fees | | 30,002 |
| Other revenue | | 26,672 |
| Interest income | | <u>2,043</u> |
| Total revenues | | <u>62,511</u> |
| Total support and revenues | | <u>10,502,593</u> |

Expenses:

| | | |
|---------------------------------------|--|------------------|
| Instruction | | 3,847,221 |
| Support Services: | | |
| Pupil personnel services | | 622,784 |
| Instructional staff training services | | 30,813 |
| Instruction related technology | | 80,135 |
| School Board | | 37,203 |
| School administration | | 588,627 |
| Fiscal services | | 1,303,229 |
| Food services | | 441,648 |
| Central services | | 27,575 |
| Transportation | | 363,677 |
| Operation of plant | | 982,605 |
| Community services | | 16,052 |
| Interest and amortization expense | | <u>1,223,525</u> |
| Total expenses | | <u>9,565,094</u> |

Change in net assets 937,499

Net Assets, beginning of year 1,769,125

Net Assets, end of year \$ 2,706,624

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

Lake Charles Charter Academy Foundation, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2017

Cash Flows from Operating Activities:

| | |
|---|------------------|
| Change in net assets | \$ 937,499 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Provision for depreciation | 566,681 |
| Provision for amortization of bond issuance costs | 19,162 |
| Provision for amortization of bond discount | 13,475 |
| (Increase) decrease in: | |
| Grants receivable | 9,745 |
| Due from related party | (101,887) |
| Other receivables | 40,320 |
| Prepaid items | (6,743) |
| Increase (decrease) in: | |
| Accounts payable and accrued expenses | (408,056) |
| Salaries and wages payable | 18,964 |
| Due to management company | 35,629 |
| Accrued interest payable | (19) |
| Deferred revenue | 14,238 |
| Custodial funds | (8,150) |
| Compensated absences | 17,862 |
| | <u>1,148,720</u> |
| Net cash provided by operating activities | <u>1,148,720</u> |

Cash Flows from Investing Activities:

| | |
|---|------------------|
| Payments for purchase of property and equipment | <u>(312,967)</u> |
| Net cash used in investing activities | <u>(312,967)</u> |

Cash Flows from Financing Activities:

| | |
|---------------------------------------|------------------|
| Payments on bonds payable | <u>(180,000)</u> |
| Net cash used in financing activities | <u>(180,000)</u> |

Net increase in cash and cash equivalents, custodial funds and restricted cash equivalents 655,753

Cash and Cash Equivalents, Custodial Funds and Restricted

Cash Equivalents, beginning of year, as restated 3,599,049

Cash and Cash Equivalents, Custodial Funds and Restricted

Cash Equivalents, end of year \$ 4,254,802

Cash and cash equivalents \$ 2,819,983

Custodial funds - cash 40,538

Restricted cash equivalents 1,394,281

\$ 4,254,802

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

Note 1 - Organization and Operations

Organization: Lake Charles Charter Academy Foundation, Inc. (the "Foundation"), a Louisiana not-for-profit corporation, was formed on April 5, 2011 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. Lake Charles Charter Academy (the "School"), a Department of the Foundation, was established as a charter school in May 2011 for students from kindergarten to eighth grade in the Louisiana Parish of Calcasieu.

Nature of activities: Lake Charles Charter Academy Foundation, Inc. was granted a charter by the Louisiana Board of Elementary and Secondary Education ("BESE") in 2011 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 Foundation 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 Foundation is to become a powerful platform of change through the creation of a network of high-performing charter schools that will target traditionally underserved students and ensure that every student realizes their academic and personal potential.

The mission of the School is to provide students with the necessary tools and skills needed to develop superior levels of achievement. The School strives for academic, social and physical excellence by providing a quality and challenging curriculum. The School promotes positive moral and social values, fosters an atmosphere of self-discipline in a safe learning environment, and maximizes individual productivity to meet the needs of a changing global society. The School's students will be able to maximize their potential for successfully actualizing their goals with confidence and intrinsic motivation, thereby enabling each student to become a lifelong learner and strong functional contributor to their local community as well as their global community.

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 Foundation. 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 Foundation 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 the October 1st and February 1st student counts and the result of any audits performed.

Cash and cash equivalents: The Foundation considers all highly liquid or short-term investments with a maturity of three months or less when purchased to be cash equivalents. The Foundation routinely maintains cash balances at financial institutions which exceed federally insured amounts. The Foundation 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 equivalents include escrow balances restricted for debt service (Note 7) and other activities as follows:

| | |
|--|---------------------|
| Series 2011A & B Debt | |
| Service Reserve Fund | \$ 1,389,963 |
| Series 2011 A & B Revenue Fund | <u>4,318</u> |
| | |
| Total restricted cash and cash equivalents | <u>\$ 1,394,281</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 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.

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

| | |
|-----------------------------------|----------|
| Buildings | 45 years |
| Furniture, fixtures and equipment | 5 years |
| Computer equipment and software | 3 years |
| Building improvements | 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 Foundation 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 \$ 19,162 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 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:

| <u>Receivables</u> | <u>Amount</u> |
|-------------------------------|-------------------|
| Title I | \$ 94,219 |
| Title II | 3,568 |
| IDEA | 11,298 |
| National School Lunch Program | <u>35,833</u> |
| | <u>\$ 144,918</u> |

Note 5 - Due From Related Party

The Foundation and Southwest Louisiana Charter Academy Foundation, Inc. ("SLCAF") are related, as they share common board membership. As of June 30, 2017, the financial statements include an amount due from SLCAF in the amount of \$ 1,078,422.

Note 6 - Property and Equipment

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

| | |
|-----------------------------------|----------------------|
| Land | \$ 1,254,128 |
| Building | 11,361,592 |
| Computer equipment and software | 1,075,715 |
| Furniture, fixtures and equipment | 688,744 |
| Building improvements | <u>241,879</u> |
| | 14,622,058 |
| Less: accumulated depreciation | <u>(2,682,434)</u> |
| Property and equipment, net | <u>\$ 11,939,624</u> |

Depreciation expense for the year ended June 30, 2017 totaled \$ 566,681.

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 BESE.

Note 7 - Bond Payable

a. Summary of Bond Payable

Bond payable at June 30, 2017 is comprised of the following:

| | |
|--|----------------------|
| \$ 15,175,000 Tax-Exempt Educational Facilities Revenue Bonds, Series 2011A; due in semi-annual installments beginning June 2016 through December 2041; interest payable semiannually at rates that range from 7.75% to 8.00%. | \$ 14,910,000 |
| Less unamortized bond discount | (329,028) |
| Less unamortized bond issuance costs | <u>(467,861)</u> |
| | <u>\$ 14,113,111</u> |

Lake Charles Charter Academy Foundation, Inc.
Notes to Financial Statements
June 30, 2017

Note 7 - Bond Payable (continued)

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

| | Balance at July 1, 2016 | Additions | Deletions | Amortization | Balance at June 30, 2017 | Due Within One Year |
|---|-------------------------------|-------------|-------------------|------------------|--------------------------------|---------------------------|
| Tax-Exempt Educational Facilities Revenue Bonds, Series 2011A | \$ 15,090,000 | \$ - | \$ 180,000 | \$ - | \$ 14,910,000 | \$ 195,000 |
| Discount on Series 2011 Bond | (342,503) | - | - | 13,475 | (329,028) | - |
| Bond issuance costs | (487,023) | - | - | 19,162 | (467,861) | - |
| | <u>\$ 14,260,474</u> | <u>\$ -</u> | <u>\$ 180,000</u> | <u>\$ 32,637</u> | <u>\$ 14,113,111</u> | <u>\$ 195,000</u> |

b. Summary of Significant Bond Terms

\$ 15,175,000 Tax-Exempt Educational Facilities Revenue Bond, Series 2011A - Series 2011A tax-exempt bond is 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 2011A bond. The bond is payable in semi-annual principal installments beginning June 2016 through December 2041. Interest ranging from 7.75% to 8.00% is payable semiannually on the fifteenth day of June and December.

The bond is 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 bond is not subject to a premium at optional redemption after December 15, 2021.

The annual debt service requirement for the Series 2011A Educational Facilities Revenue Bonds not including unamortized discount and bond issuance costs consists of:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|----------------------|----------------------|
| 2018 | \$ 195,000 | \$ 1,176,744 | \$ 1,371,744 |
| 2019 | 210,000 | 1,161,244 | 1,371,244 |
| 2020 | 225,000 | 1,144,775 | 1,369,775 |
| 2021 | 245,000 | 1,126,950 | 1,371,950 |
| 2022 | 265,000 | 1,107,575 | 1,372,575 |
| 2023-2027 | 1,665,000 | 5,189,900 | 6,854,900 |
| 2028-2032 | 2,430,000 | 4,420,131 | 6,850,131 |
| 2033-2037 | 3,595,000 | 3,269,400 | 6,864,400 |
| 2038-2042 | 6,080,000 | 1,487,800 | 7,567,800 |
| | <u>\$ 14,910,000</u> | <u>\$ 20,084,519</u> | <u>\$ 34,994,519</u> |

Note 7 - Bond Payable (continued)

The trust indenture requires reserve funds equal to \$ 1,389,963 for the Series 2011A 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 is as follows:

| <u>Covenant</u> | <u>Requirement</u> | <u>Calculated</u> |
|---------------------------------------|--------------------|-------------------|
| Long-term debt service coverage ratio | At least 1.25 | 1.98 |

In order to secure the payment in full of the bonds and to secure the performance by the Foundation to all covenants, the Organization grants the Louisiana Public Facilities Authority (the "Authority") a security interest in substantially all their property and equipment. The Foundation 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

Lake Charles 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 agreements: The School has a formal agreement with Charter Schools USA at Lake Charles, LLC ("CSUSA") to manage, staff, and operate the School. The cost reimbursements and management fees (the "fee") range from \$ 1,335,087 for 2018 to \$ 1,741,986 for 2027 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 fee received by CSUSA was \$ 1,296,200. Extension of the agreement shall correspond to the length of the charter and shall be approved by the Board of Directors.

The School had an amount due to CSUSA for \$ 35,629 at June 30, 2017. This amount is shown on the basic financial statements as an amount due to management company.

Related party: SLCAF entered into a debt agreement with a financial institution for funding to purchase the Lake Charles College Prep ("LCCP") facility. The Foundation and SLCAF acknowledge that the financial institution is relying on the financial strength of both Southwest Louisiana Charter Academy and Lake Charles Charter Academy to provide the support to cover any expected or unexpected losses associated with SLCAF. This is not to say that they guarantee the debt of SLCAF but rather will acknowledge their commitment to cover the shortfalls projected.

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 \$ 5,101, for the year ended June 30, 2017.

Note 11 - Supplemental Cash Flow Information

Supplemental Disclosure of Cash Flow information:

| | <u>2017</u> |
|--|--------------|
| Cash received during the year for - Interest income | \$ 2,043 |
| Cash paid during the year for - Interest expense | \$ 1,190,888 |