
LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

NEW ORLEANS, LOUISIANA

FINANCIAL STATEMENTS

JUNE 30, 2012



A Professional Accounting Corporation

www.pncpa.com

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

FINANCIAL STATEMENTS

JUNE 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1
<u>FINANCIAL STATEMENTS</u>	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
<u>INDEPENDENT AUDITORS' REPORT ON</u>	11
<u>INTERNAL CONTROL OVER FINANCIAL REPORTING</u>	
<u>AND ON COMPLIANCE AND OTHER MATTERS BASED</u>	
<u>ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED</u>	
<u>IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></u>	
<u>SCHEDULE OF FINANCIAL STATEMENT FINDINGS</u>	13

INDEPENDENT AUDITORS' REPORT

To the Board of Directors for
Lycée Français de la Nouvelle-Orléans
New Orleans, Louisiana:

We have audited the accompanying statement of financial position of Lycée Français de la Nouvelle-Orléans ("Lycée") as of June 30, 2012, and the related statements of activities and changes in net assets and cash flows for the period from inception, June 3, 2011 to June 30, 2012. These financial statements are the responsibility of Lycée's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lycée's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lycée Français de la Nouvelle-Orléans as of June 30, 2012, and the changes in its net assets and its cash flows for the initial period then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of Lycée'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* and should be considered in assessing the results of our audit.

Postlethwaite + Netterville

New Orleans, Louisiana
December 28, 2012

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents, unrestricted	\$ 460,996
Accounts receivable, less allowance for doubtful accounts of \$18,095	69,748
Grants receivable	37,448
Prepaid rent	<u>3,075</u>
Total current assets	<u>571,267</u>

EQUIPMENT

Equipment	24,911
Less: accumulated depreciation	<u>(3,321)</u>
Equipment, net	<u>21,590</u>
Total assets	<u><u>\$ 592,857</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 69,750
Deferred revenue	<u>601,960</u>
Total current liabilities	<u>671,710</u>

NET ASSETS

Unrestricted	<u>(78,853)</u>
Total net assets (deficit)	<u>(78,853)</u>
Total liabilities and net assets	<u><u>\$ 592,857</u></u>

The accompanying notes are an integral part of this financial statement.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
PERIOD FROM INCEPTION JUNE 3, 2011 TO JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and support:			
Federal grants	\$ -	\$ 153,507	\$ 153,507
State grants	480,606	81,908	562,514
Tuition and activity income	518,451	-	518,451
Contributions	73,022	-	73,022
Other income	347	-	347
Net assets released from restrictions	235,415	(235,415)	-
	<u>1,307,841</u>	<u>-</u>	<u>1,307,841</u>
Total revenues and other support			
Expenses:			
Program services:			
Elementary and kindergarten	248,668	-	248,668
Prekindergarten	406,026	-	406,026
Special education	149,731	-	149,731
Extracurricular activities	48,596	-	48,596
Aftercare	77,542	-	77,542
Support services:			
Business services and payroll	86,755	-	86,755
Operations and maintenance	173,653	-	173,653
Management and general	94,400	-	94,400
Professional and start up costs	89,758	-	89,758
Other support services	11,565	-	11,565
	<u>1,386,694</u>	<u>-</u>	<u>1,386,694</u>
Total expenses			
Change in net assets	(78,853)	-	(78,853)
<u>NET ASSETS AT INCEPTION</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>NET ASSETS (DEFICIT) AT END OF THE YEAR</u>	<u>\$ (78,853)</u>	<u>\$ -</u>	<u>\$ (78,853)</u>

The accompanying notes are an integral part of this financial statement.

LYCÉE FRANCAIS DE LA NOUVELLE-ORLÉANS
STATEMENT OF CASH FLOWS
PERIOD FROM INCEPTION JUNE 3, 2011 TO JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (78,853)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	3,321
Non-cash grant for equipment	(15,000)
Changes in operating assets and liabilities:	
Accounts receivable	(69,748)
Grants receivable	(37,448)
Prepaid rent	(3,075)
Accounts payable and accrued expenses	69,750
Deferred revenue	601,960
	<hr/>
Net cash provided by operating activities	470,907
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of equipment	(9,911)
	<hr/>
Net cash used in investing activities	(9,911)
	<hr/>
Net increase in cash	460,996
Cash and cash equivalents, inception	<hr/> -
Cash and cash equivalents, end of year	<hr/> <u>\$ 460,996</u>

The accompanying notes are an integral part of this financial statement.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

Lycée Français de la Nouvelle-Orléans ("Lycée") was incorporated on June 3, 2011 as an educational institution organized to create a top-notch academic and multicultural school environment to inspire its students to reach their full potential. At June 30, 2012, Lycée offers classes in Pre-Kindergarten (3 year old), Pre-Kindergarten (4 year old), and Kindergarten organized per the French education model.

The Board of Elementary and Secondary Education (BESE) approved the granting of charter to Lycée effective June 30, 2011 for an initial period ending on June 30, 2016, to operate a Type 2 Charter School, as defined in LA R.S. 17:3998(A)(2). Lycée commenced operations with the 2011-2012 school year.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board under *ASC No. 958 Not-for-Profit Entities*.

Lycée is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, the net assets of Lycée and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met either by actions of Lycée and/or the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled and removed by actions of Lycée pursuant to those stipulations. At June 30, 2012, Lycée has no permanently restricted net assets.

Cash and Cash Equivalents

Cash includes amounts on deposit at local financial institutions.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable (continued)

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At June 30, 2012, management has established an allowance of \$18,095 for estimated uncollectible receivables.

Property and Equipment

Lycée capitalizes all expenditures for property and equipment in excess of \$5,000 and expenditures for repairs and improvements that materially prolong the useful lives of assets capitalized. Property is recorded at historical cost or, if donated, at the approximate fair value at the date of donation. Depreciation of these assets is provided on the straight-line basis over their estimated useful lives of 3 to 5 years for furniture and equipment and 5 years for leasehold improvements.

Contributions and Revenue Recognition

Lycée reports contributions of cash or other assets as restricted support if they are received with donor imposed restrictions or requirements that limit the use of the donation. A donor restriction ends when a time restriction is met or a purpose restriction is accomplished. As restrictions are met, assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the statement of activities.

Revenues from federal and state grants are recorded when Lycée has a right to reimbursement under the related grant, generally corresponding to the incurring of grant related costs by Lycée, or when otherwise earned under the terms of the grants.

Contributed Services

In addition, Lycée receives services donated by parents and community members in carrying out Lycée's mission. The value of these services is not recognized in the accompanying financial statements due to their unspecialized nature.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LYCÉE FRANCAIS DE LA NOUVELLE-ORLÉANS

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (continued)

Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in Note 5. Accordingly, certain costs have been allocated among the instructional and supporting services benefited.

Tuition Revenue and Deferred Revenue

Tuition revenue represents amounts charged for students in Pre-Kindergarten (3 year old) and Pre-Kindergarten (4 year old) classes. Revenue is recognized based on accrual accounting in accordance with generally accepted accounting principles. Lycée recognizes tuition revenue over the course of the term for which it is earned, regardless of when it is received. Receipt of tuition which has yet to be earned is recorded as deferred revenue.

Tuition revenue includes school year tuition, summer camp tuition, and fees related to afterschool care services.

Tax Exempt Status

Lycée is a nonprofit organization exempt from the income taxes under provisions of the Internal Revenue Service Code Sections 501(c) (3) and the Louisiana Revised Statutes; therefore, no provision has been made for federal and state income taxes.

Lycée applies a "more-likely-than-not" recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than 50% percent likelihood of being sustained upon examination by the taxing authorities. As a result of implementing this approach, Lycée has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities, therefore the implementation of this standard has not had a material effect on Lycée. Lycée's 2011 tax return was not remitted by the deadline which resulted in \$3,771 in penalties and fees. Lycée's 2012 tax return has not been filed as of the report date and is on a valid extension.

2. Grants Receivable

Grants receivable as of June 30, 2012 are as follows:

Due from federal government	\$	13,728
(Passed through the State of Louisiana)		
Due from State of Louisiana		23,720
	\$	<u>37,448</u>

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

NOTES TO FINANCIAL STATEMENTS

3. Operating Leases

During the period from inception through June 30, 2012, Lycée had the following lease agreements in place for the school facilities used. In June 2011, Lycée entered into an operating lease agreement with First Presbyterian Church of New Orleans for the rental of property located at 5401 South Claiborne Avenue. The lease term is from July 1, 2011 through July 1, 2014. The lease agreement does provide for an extension of the lease term for two additional years if certain conditions are met.

Lycée entered into a 5 year operating lease agreement commencing on July 1, 2012 with St. Francis of Assisi Roman Catholic Church for the rental of the former St. Francis of Assisi School located at 5951 Patton Street. The lease agreement provides for two consecutive five year extensions of the lease term if certain conditions are met.

A Cooperative Endeavor Agreement for the use of the area of Audubon Zoo known as the Nim's Early Childhood Classroom was entered into for the period from August 31, 2011 through May 26, 2012 at \$3,000 per month.

Future minimum lease payments under operating leases as of June 30, 2012 are as follows:

<u>Period Ending June 30</u>	<u>Amount</u>
2013	\$ 196,900
2014	237,800
2015	278,700
2016	289,600
2017	250,000

Rent expense for all operating leases during the period ended June 30, 2012 was \$71,500.

3. Line of Credit

During the period ended June 30, 2012, Lycée had an unsecured line of credit with a local financial institution at 6.5% annual interest. The available line of credit balance at June 30, 2012 was \$250,000. The balance on the line of credit was zero at June 30, 2012. The line of credit was closed on July 6, 2012.

4. Functional Allocation of Expenses

Expenses have been reported in the statement of activities by natural classification. Lycée presents functional classifications of expenses charged to program services. Instructional program services represent management's estimate of expenses that can be directly allocated to supporting classroom and teaching activities and programs. Support services include those expenses related to the administrative operations, including accounting and administrative functions. Functional expenses for the period ended June 30, 2012 are as listed on the following page:

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

NOTES TO FINANCIAL STATEMENTS

5. Functional Allocation of Expenses (continued)

	Program Services	Support Services	Total
Salaries	\$ 570,838	\$ 167,179	\$ 738,017
Employee benefits	116,684	55,386	172,070
Materials and supplies	91,254	31,074	122,328
Miscellaneous	-	50,491	50,491
Occupancy	130,082	65,041	195,123
Professional and technical services	21,705	86,960	108,665
Total expenses	<u>\$ 930,563</u>	<u>\$ 456,131</u>	<u>\$ 1,386,694</u>

6. Credit Risk Concentration

Lycée deposits its cash and cash equivalents with financial institutions in the greater New Orleans area. Non-interest bearing cash accounts at each financial institution are fully insured by NCUA Insurance. As of June 30, 2012, all Lycée's deposits are fully insured.

7. Defined Contribution Retirement Plan

Lycée has a 401(k) plan that was adopted on July 20, 2011. Employees 21 years of age and older are eligible to participate in the plan the first day of each month following their hire date. Under the terms of the plan, Lycée matched 100% of the employee's contributions up to 5% of total salary. For the period ended June 30, 2012, Lycée made \$33,712 in employer matching contributions to the plan.

8. Contingencies-Grant Programs

Lycée participates in a number of state and federal grant programs, which are governed by various rules and regulations. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Lycée has not complied with the rules and regulations governing the grants, refunds of any money received and the collectability of any related receivable as of June 30, 2012 might be impaired. In management's opinion, there are no significant contingent liabilities relating to compliance with the rules and regulations governing state and federal grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Any costs that would be disallowed would be recognized in the period agreed upon by the grantor agency and Lycée.

9. Economic Dependency

Lycée receives the majority of its revenue from the State of Louisiana Minimum Foundation Program Funding and from various federal grants passed through the State of Louisiana. The grant amounts are appropriated each year by the federal and state governments. If significant budget cuts are made at the

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

NOTES TO FINANCIAL STATEMENTS

9. Economic Dependency (continued)

federal and/or state level, the amount of funds Lycée receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will significantly affect the amount of funds Lycée will receive relating to its grant awards.

10. Working Capital Deficit

As shown in the accompanying financial statements at June 30, 2012, Lycée's current liabilities exceeded its current assets by \$100,443. During the period ended June 30, 2012, Lycée reported a net deficit of \$78,853.

On November 12, 2012 the Board approved a revised budget for the year ended June 30, 2013, with revenues in excess of expenditures of \$89,499. The budgeted increase in net assets for the year ended June 30, 2013 will reduce the fund balance deficit that existed at June 30, 2012. Management and the Board have accomplished this through reductions to salaries, benefits, and supplies provisions. The budget was accepted by the Louisiana Department of Education on December 13, 2012. Lycée has also launched its inaugural Annual Giving Campaign on December 10, 2012. Lycée is committed to utilizing its financial resources efficiently and fundraising within the school and community in order to address its financial position.

11. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 28, 2012, and determined that the following items require disclosure.

In August 2012, Lycée expanded its operations to include an additional location at 5951 Patton Street. As a result of the expansion, Lycée entered into an operating lease agreement which is disclosed at Note 3. Lycée added the 1st and 2nd Grades for the 2012-2013 school year.

On December 20, 2012, the State of Louisiana Department of Education and the Louisiana Charter School Association announced a partnership to support the Board of Directors of Lycee through the engagement of a consultant to assist the Board. The consultant's objectives include the creation of a Chief Executive Officer (CEO) candidate profile, design of a CEO search process, and other recommendations to the Board of Directors of Lycee regarding roles and processes within Lycee. The Louisiana Charter School Association has agreed to fund this engagement through private donations.

**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 Directors for
Lycée Français de la Nouvelle-Orléans
New Orleans, Louisiana:

We have audited the financial statements of Lycée Français de la Nouvelle-Orléans ("Lycée") as of and for the period ended June 30, 2012, and have issued our report thereon dated December 28, 2012. 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.

Internal Control Over Financial Reporting

Management of Lycée is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lycée's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lycée's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lycée's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of financial statement findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of financial statement findings, items 2012-01 through 2012-03, to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of financial statement findings, item 2012-04, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lycée's financial statements are free of 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of financial statement findings as item 2012-05.

Lycée's responses to findings identified in our audit are described in the accompanying schedule of financial statement findings. We did not audit Lycée's responses and, accordingly we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and the Legislative Auditor's Office, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite + Netterville

New Orleans, Louisiana
December 28, 2012

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2012

2012-01 Balance Sheet Account Reconciliations

Condition: Account reconciliations were not prepared on a monthly basis for all significant balance sheet accounts. When the account reconciliations were prepared, the review was not performed in a timely manner. Prior to October 2012, financial statements were not provided to the Board of Directors.

Criteria: Account reconciliations should be prepared in a timely manner for all significant balance sheet accounts. The reconciliations should be reviewed in a timely manner by someone other than the preparer and the review should be documented.

Effect: As a result of the impact of the above, adjustments to balance sheet accounts were identified by management as part of the year end procedures and preparation for the annual audit. The lack of proper procedures in performing the reconciliation process throughout the year has impacted Lycée's financial controls and the ability to provide timely and accurate financial information to the Board of Directors.

Cause: Proper procedures and controls over account reconciliations were not performed or not documented during the year.

Recommendation: Lycée should implement a policy in which all significant balance sheet accounts including all cash accounts, account receivable, prepaid expenses, accounts payable, and other liabilities are reconciled on a monthly basis and reviewed for agreement to the general ledger. The review should be performed by someone other than the preparer in a timely manner and be documented. In addition, monthly financial statements should be provided by management to the Board for review.

Management Response: To implement proper reconciliation procedures and address the deficiency in financial reporting, in August 2012 Lycée hired an experienced Certified Public Accountant (CPA) to serve as the Director of Finance and Operations (DFO).

The DFO is responsible for reconciling all significant balance sheet accounts monthly. Significant accounts for Lycée include: cash, accounts receivable, prepaid expenses, accounts payable, and grants receivable. The reconciliation reports are provided to the Finance Committee, who reviews for reasonableness and agreement to the general ledger. This review is documented by the sign off of any Finance Committee member.

The DFO is also responsible for monthly financial reporting to the Board of Directors and beginning in October 2012, has provided current financial reports to the Board of Directors at their monthly public meeting.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2012

2012-02 Internal Controls over Payroll Processing

Condition: As part of our procedures performed, we observed the following regarding payroll processing:

- The Business Manager was responsible for processing payroll, adding new employees, removing terminating employees, making pay rate changes, recording amounts in the general ledger, and reconciling the payroll account.
- Payroll was processed by the Business Manager either in-house or through a third party provider with no documentation of review.
- Teachers, teachers' assistants, and administrative employees did not have documentation of approved pay rates. Employees were paid different pay rates based on the duties performed each pay period which made the payroll process more complex.
- Time sheets for employees did not have documented approval by a reviewer.
- Payroll withholding amounts were not accurately reported on the quarterly 941 forms and not properly withheld from an employee's gross payroll. An employee did not have \$344 of Social Security and Medicaid taxes withheld from her check in the first quarter of 2012. Lycée remitted \$607 to the Internal Revenue Service in correction of the error.

Criteria: Adequate segregation of duties is an important aspect of an effective internal control environment. Internal controls should be designed and implemented to provide adequate review procedures and documentation of the procedures performed.

Effect: Internal controls over the processing of payroll were not adequately designed or implemented during the period ended June 30, 2012. Proper segregation of duties was not in place and review procedures performed were not documented.

Cause: Proper procedures and controls over payroll processing were not performed and not documented during the year

Recommendation: Lycée should implement proper segregation of duties over the payroll process. Management should implement appropriate preventive or detective controls over the payroll process, including timely review of the payroll register by a member of the executive management team or the Board. This review should be documented. In addition, Lycée should include appropriate documentation for approval for authorized salary amounts or changes in rate of pay in each employee's personnel file. Time sheets as applicable should be reviewed by management and this review should be documented. The Principal should review on an as needed basis a report of pay rate changes to the master file maintained by the third party provider.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2012

2012-02 Internal Controls over Payroll Processing (continued)

Management Response: As of the date of this report, Lycée has implemented the following controls over payroll processing.

Control	Control Type	Frequency	Description
Review and Approval of Timesheets- A	Preventative, Manual	Weekly	Weekly timesheets submit by hourly employees are reviewed and approved by the employee's supervisor (documented via email) prior to being submit to the business office for payroll.
Review and Approval of Timesheets-B	Preventative, Manual	Bi-Weekly	Approved, individual timesheets are compiled into a master timesheet report by the Assistant to the DFO. The DFO reviews and signs off on the master timesheet prior to creating payroll.
Review and Approval of Payroll Register	Preventative, Manual	Bi-Weekly	The DFO submits a payroll detail report along with the master timesheet report to the Director for approval. The Director signs off on the payroll detail prior to the DFO approving payroll in the accounting system.
Approval over Payroll Account Funding	Detective, Manual	Bi-Weekly	The DFO submits the payroll detail signed by the Director (who is the first check signer), along with a request for a transfer of funds from the Operating to Payroll Account, to the second check signer. The second check signer reviews the report for reasonableness and validates that the amount of the transfer requested matches the total of the payroll detail report before transferring the funds.
Authorization of Pay Rates and Changes to Employee Status-A	Preventative, Manual	As needed	Changes to an employee's rate of pay or status are documented in the employee's personnel file by an employment agreement, pay rate change form, or exit paperwork as applicable. The documents possess the dual signatures of the employee and the Director.
Authorization of Pay Rates -B	Detective, Manual	Bi-Weekly	Each pay period, the DFO sends the Director a master pay schedule run directly in the payroll system. The Director checks this report for any changes to employees' rates of pay or employment status and will request the relevant support for any unexpected changes noted. Relevant support for such a change includes: an authorized pay rate change form, exit paperwork or an employment agreement, possessing the dual signatures noted above in Authorization of Pay Rates and Changes to Employee Status-A. The Director may also run this report at random intervals using the Director's unique access to the accounting system.

Management also notes an overly complex pay structure, put in place by the prior administration, in which there are many part-time employees who perform duties such as day care and lunch for few hours per week at differing, undocumented pay rates, as well as additional pay to employees for duties performed during their regular salaried hours, and differing rates amongst substitutes. In subsequent years, Lycée will endeavor to set employee salaries at a level that compensates for all duties performed and to pay its employees in accordance with a singular pay scale.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2012

2012-03 Internal Controls over Disbursement Processing

Condition: As part of our procedures performed, we observed the following regarding disbursement processing:

- The Business Manager was responsible for processing disbursements, adding new vendors, signing checks, recording amounts in the general ledger, and reconciling the operating account.
- Disbursements were processed by the Business Manager and the appropriate approval was not consistently documented on the invoice or check request form. General ledger account coding was not consistently documented on each invoice.
- The check signing requirements in place permitted one authorized check signer to sign checks less than \$5,000 and checks in excess of \$5,000 required two authorized check signers.
- A debit card for the operating account was maintained and used by Lycée. The appropriate approval was not consistently documented for debit card transactions. Lycée also used on-line web-sites to make retail purchases in which documented authorization was not obtained prior to completing the purchase.
- Management was unable to provide supporting documentation/invoices for three disbursements that totaled \$2,500. The three vendors did appear reasonable based on the operations of the school, however we did not observe supporting documentation for the three disbursements.

Criteria: Adequate segregation of duties is an important aspect of an effective internal control environment. Internal controls should be designed to provide adequate review procedures and documentation of the procedures performed.

Effect: Internal controls over the processing of disbursements, including debit card transactions were not adequately designed or implemented during the period ended June 30, 2012. Proper segregation of duties was not in place and review procedures performed were not documented.

Cause: Proper procedures and controls over disbursement processing were not performed and not documented during the year.

Recommendation: Lycée should implement proper segregation of duties over the disbursement process. Management should implement appropriate preventive or detective controls over the disbursement process, including documentation of approval of invoices and debit card transactions. Authorized check signers should not perform functions to record the activity in the general ledger or to reconcile the operating bank account. Management should maintain the appropriate documentation and invoices for disbursements.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2012

2012-03 Internal Controls over Disbursement Processing (continued)

Management Response: As of the date of this report, Lycée has implemented the following controls over disbursement processing:

Control	Control Type	Frequency	Description
Approval of Invoices	Preventative, Manual	As needed	All invoices are received by the Assistant to the DFO (Assistant). Prior to entering a payable, the Assistant stamps the invoice and fills out: the date, due date, account number and class (e.g.: restricted, general fund, etc.) and submits to the DFO for approval. The DFO signs to approve, and the Assistant initials once the invoice has been entered in the accounting system.
Review and Approval of Payment	Preventative, Manual	Weekly	Each week the Assistant uses the accounting software to run a current Accounts Payable (AP) listing. The DFO circles which items to pay and signs and dates the AP report. The Assistant creates payment for and prints checks for the items indicated.
Dual Check Signing	Preventative, Automated	As needed	All checks are signed by two signers. The checks are printed such that it is indicated thereon that the check is not valid without two signatures.
Check Issuance and Signing	Detective, Manual	Weekly	Each week the check signers receive a folder with checks to sign. Before signing, the signers review for the following documentation attached to each check: invoice stamped with the account number and approved for payment by the DFO; purchase order approved by the DFO or Director and DFO, if applicable; and shipping documentation, dated and initialed by the Assistant to the DFO, if applicable.
Credit Card Usage	Preventative, Automated	n/a	As of August 2012 Lycée does not have a debit card or a credit card. All payments go through the check issuance process detailed above.
Creation and Approval of Purchase Orders	Preventative, Manual	As needed	No item is purchased unless it is approved by the DFO or Director. If an employee would like to make an order he or she must send a request via email to the Assistant to the DFO and indicate whether the item was approved by the Director. The Assistant creates a purchase order (PO) for the item(s). If the item(s) are under \$1,000 the DFO will sign to approve the PO and the Assistant will order. If the item is over \$1,000, or if the items are not typical instructional or supply items, the DFO will obtain a second signature from the Director.
Budget Compliance	Preventative, Manual	As needed	Both recurring (e.g. rent, contracts, and salaries) and non-recurring (e.g. materials and supplies) are provided for in the annual budget which is created by the DFO and approved by the Board of Directors. Recurring expenditures are checked for variance against the approved recurring amount. Non-recurring expenditures are evaluated against budgetary provisions before they are approved for purchase by the DFO and Director.
Budget Monitoring	Detective, Manual	Monthly	Monthly, the DFO provides a Budget to Actual Income Statement to the Board of Directors. The analysis which includes over/under budget amounts and percent of available budget used to date can be found on the governance section of the School's website.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2012

2012-03 Internal Controls over Disbursement Processing (continued)

Management Response (continued): Early in the fiscal year, Management identified that there was a lack of control over access to the School's online and over-the-phone retail accounts. Employees who did not work in the purchasing function had the ability to create and receive orders without approval. To correct the deficiency, online and phone retailers were contacted by management and instructed to only accept orders from Lycée that include an authorized PO and online account passwords were reset.

2012-04 Payroll amounts paid to Principal

Condition: The first Principal hired by the Board resigned effective April 2, 2012. The Principal did not have a signed employment agreement with Lycee. The Principal received payroll and health benefits after her resignation and after she was no longer working for Lycée. During the period April 13, 2012 through July 6, 2012, this employee received salary and benefits in the amount of \$29,878 by Lycée. We did not observe any documented approval or authorization for these amounts to be disbursed.

Criteria: Payroll amounts paid should be properly authorized and approved. Authorization and approval should be documented. Lycee should have a process and proper controls in place regarding terminated employees.

Effect: The first Principal was paid amounts through payroll and received health benefits which we were unable to observe documented authorization or approval for the amounts disbursed.

Cause: Proper procedures and controls over payroll and disbursement processing were not performed and not documented during the year.

Recommendation: Management should maintain the appropriate documentation and authorization for payroll amounts and disbursements. The Principal should have a documented employment agreement. Lycée should implement a process to remove terminated employees from the payroll register.

Management Response: For active employees as of August 2012, management retains in their personnel files: signed employment agreements that note approved rates of pay. As noted at Management's Response to material weakness no. 2012-02, Management has implemented preventative and detective internal controls over payroll processing, including review and approval over the payroll register.

As of the date of this report, Management has implemented a process to remove terminated employees from the payroll register. Depending on the position, exit paperwork is filled out by the Director, or a member of the Executive Committee of the Board. The paperwork includes the date and amount of the terminated employee's last paycheck and indicates the type of payment (e.g. severance, accrued leave, etc.). A signed copy is filed in the employee's personnel file. The Director also reviews the biweekly payroll registers for proper exclusion of terminated employees.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS

SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE PERIOD ENDED JUNE 30, 2012

2012-05 Board member expenses

Condition: During the course of our audit, we were made aware that Lycée had provided a cell phone plan to a board member without the approval of the Board of Directors. The total amount of cell phone payments made for the benefit of the board member totaled \$627 during the period ended June 30, 2012. This amount was reimbursed in July of 2012 by the board member to Lycée.

Criteria: Bulletin 126 of Louisiana charter school law provides that board members of each charter operator shall receive no compensation other than reimbursement of actual expenses incurred while fulfilling duties as a member of the board.

Effect: Lycée was not in compliance with the requirements as described in Bulletin 126 of Louisiana charter school law.

Cause: Proper procedures and controls over disbursement processing were not performed and not documented during the year.

Recommendation: Management should implement appropriate preventive or detective controls over the disbursement process, including documentation of approval of invoices and debit card transactions.

Management Response: As of the date of this report, the total amount of the cell phone payments has been reimbursed by the Board member to Lycée. Based on the advice of the Louisiana Department of Education, documentation of the incident has been filed with the State Board of Ethics.

As noted above, in Management's response to 2012-03, Lycée has implemented preventative and detective internal controls over disbursements, including documentation of approval of invoices.

A critical factor in the successful implementation of the internal controls described herein, particularly in addressing the lack of segregation of duties noted throughout, is the hiring of an Interim CEO who has both Academic and Business experience, a Director of Finance and Operations who is a CPA, and an Assistant to the DFO who holds a degree in Business. Management considers the current staff to have sufficient and appropriate knowledge and training to carry out the control functions for which they are responsible.

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS
NEW ORLEANS, LOUISIANA

PERFORMANCE AND STATISTICAL DATA

FOR THE PERIOD ENDED JUNE 30, 2012



A Professional Accounting Corporation

www.pncpa.com

LYCÉE FRANÇAIS DE LA NOUVELLE-ORLÉANS
NEW ORLEANS, LOUISIANA

PERFORMANCE AND STATISTICAL DATA SCHEDULES

FOR THE PERIOD ENDED JUNE 30, 2012

Independent Accountants' Report
On Applying Agreed-Upon Procedures

To the Board of Directors
Lycée Français de la Nouvelle-Orléans
New Orleans, Louisiana:

We have performed the procedures included in the *Louisiana Governmental Audit Guide* and enumerated below, which were agreed to by the management of Lycée Français de la Nouvelle-Orléans ("Lycée") and the Legislature Auditor, State of Louisiana, solely to assist users in evaluating management's assertions about the performance and statistical data accompanying the annual financial statements of Lycée and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education (BESE) Bulletin as related to the limited procedures performed herein. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings relate to the accompanying schedules of supplemental information and are as follows.

General Fund Instructional and Support Expenditures and Certain Local Revenue Sources (Schedule 1)

- 1 We selected a random sample of 25 transactions and reviewed supporting documentation to determine if the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following amounts reported on the schedule:
 - Total General Fund Instructional Expenditures,
 - Total General Fund Equipment Expenditures,
 - Total Local Taxation Revenue, and
 - Total State Revenue in Lieu of Taxes.

We noted no exceptions.

Education Levels of Public School Staff (Schedule 2)

- 2 We reconciled the total number of full-time classroom teachers per the schedule "Experience of Public Principals and Full-time Classroom Teachers" (Schedule 4) to the combined total number of full-time classroom teachers per this schedule and to Lycée supporting payroll records as of October 1st.

We noted no exceptions.

3. We reconciled the combined total of principals and assistant principals per the schedule "Experience of Public Principals and Full-time Classroom Teachers" (Schedule 4) to the combined total of principals and assistant principals per this schedule.

We noted no exceptions.

4. We obtained a list of full-time teachers, principals, and assistant principals by classification as of October 1st and as reported on the schedule. We traced a random sample of 9 employees to the individual's personnel file and determine if the individual's education level was properly classified on the schedule.

We noted no exceptions.

Number and Type of Public Schools (Schedule 3)

- 5 We obtained a list of schools by type as reported on the schedule. We compared the list to the schools and grade levels as reported on the charter application

We noted no exceptions.

Experience of Public School Principals and Full-time Classroom Teachers (Schedule 4)

- 6 We obtained a list of full-time teachers, principals, and assistant principals by classification as of October 1 and as reported on the schedule and traced the same sample used in procedure 4 to the individual's personnel file and determined if the individual's experience was properly classified on the schedule.

We noted no exceptions.

Public School Staff Data (Schedule 5)

7. We obtained a list of all classroom teachers including their base salary, extra compensation, and ROTC or rehired retiree status as well as full-time equivalent as reported on the schedule and traced a random sample of 7 teachers to the individual's personnel file and determined if the individual's salary, extra compensation, and full-time equivalents were properly included on the schedule.

We noted no exceptions.

- 8 We recalculated the average salaries and full-time equivalents reported in the schedule.

We noted no exceptions.

Class Size Characteristics (Schedule 6)

- 9 We obtained a list of classes by school, school type, and class size as reported on the schedule and reconciled school type classifications to Schedule 3 data, as obtained in procedure 5. We then traced a random sample of 6 classes to the October 1st roll books for those classes and determined if the class was properly classified on the schedule.

We noted no exceptions.

Louisiana Educational Assessment Program (LEAP) for the 21st Century (Schedule 7)

- 10 We noted during the period ended June 30, 2012, Lycée operated Pre-Kindergarten (3 year old) through Kindergarten classes. The LEAP assessment was not administered to any students.

Not applicable.

The Graduation Exit Exam for the 21st Century (Schedule 8)

- 11 We noted during the period ended June 30, 2012, Lycée operated Pre-Kindergarten (3 year old) through Kindergarten classes. The Graduation Exit Exam was not administered to any students.

Not applicable.

The Iowa Tests (Schedule 9)

12. We noted during the period ended June 30, 2012, Lycée operated Pre-Kindergarten (3 year old) through Kindergarten classes. The Iowa Tests were not administered to any students.

Not applicable.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of management of the Lycée, the Louisiana Department of Education, the Louisiana Legislature, and the Legislative Auditor, State of Louisiana, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite + Netterville

New Orleans, Louisiana
December 28, 2012



General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures

Teacher and Student Interaction Activities

Classroom Teacher Salaries	\$	396,485
Other Instructional Staff Activities		95,568
Employee Benefits		90,774
Purchased Professional and Technical Services		12,743
Instructional Materials and Supplies		17,510
Instructional Equipment		18,479

Total Teacher and Student Interaction Activities \$ 631,559

Other Instructional Activities

3,478

\$ 635,037

Pupil Support Activities

\$ 8,526

Less Equipment for Pupil Support Activities

-

Net Pupil Support Activities

\$ 8,526

Instructional Staff Services

\$ 1,508

Less Equipment for instructional staff services

-

Net Instructional Staff Services

\$ 1,508

School Administration

\$ 278,056

Less. Equipment for School Administration

-

Net School Administration

\$ 278,056

Total General Fund Instructional Expenditures

\$ 923,127

Total General Fund Equipment Expenditures

\$ 18,479

Certain Local Revenue Sources

Local Taxation Revenue

Constitutional Ad Valorem Taxes	\$	-
Renewable Ad Valorem Tax		-
Debt Service Ad Valorem Tax		-
Up to 1% of Collections by the Sheriff on Taxes		-
Sales and Use Tax		-
Total Local Taxation Revenue		<u><u>\$ -</u></u>

State Revenue in Lieu of Taxes

Revenue Sharing - Constitutional Tax	\$	-
Revenue Sharing - Other Taxes		-
Revenue Sharing - Excess Portion		-
Other Revenue in Lieu of Taxes		-
Total State Revenue in Lieu of Taxes		<u><u>\$ -</u></u>

Nonpublic Textbook Revenue

\$ -

Nonpublic Transportation Revenue

\$ -

Prepared by Lycee Francais de la Nouvelle Orleans

**Schedule 2:
Education Level of Public Principals, Assistant Principals, and Full-Time Classroom Teachers
As of October 1, 2011**

Category	Full-time Classroom Teachers				Principals and Assistant Principals			
	Certificated		Uncertificated		Certificated		Uncertificated	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Less than a Bachelor's Degree	-	0%	-	0%	-	0%	-	0%
Bachelor's Degree	4	57%	-	0%	-	0%	1	100%
Master's Degree	3	43%	-	0%	1	100%	-	0%
Master's Degree +30	-	0%	-	0%	-	0%	-	0%
Specialist in Education	-	0%	-	0%	-	0%	-	0%
Ph. D. or Ed. D.	-	0%	-	0%	-	0%	-	0%
Total	7	100%	-	100%	1	100%	1	100%

Prepared by Lycee Francais de la Nouvelle Orleans

**Schedule 3: Number and Type of Public Schools
For the Year Ended June 30, 2012**

Type	2012
	Number
Elementary	1
Middle/Jr. High	0
Secondary	0
Combination	0
Total	1

Prepared by Lycee Francais de la Nouvelle Orleans

**Schedule 4:
Experience of Public Principals, Assistant Principals, and Full-Time Classroom Teachers
As of October 1, 2011**

	0-1 Yr.	2-3 Yrs	4-10 Yrs	11-14 Yrs	15-19 Yrs	20-24 Yrs	25+ Yrs	Total
Assistant Principals	-	-	-	-	-	1.0	-	1.0
Classroom Teachers	-	-	7.0	-	-	-	-	7.0
Principals	-	-	-	-	-	-	1.0	1.0
Total	-	-	7.0	-	-	1.0	1.0	9.0

Prepared by Lycee Francais de la Nouvelle Orleans

Schedule 5: Public School Staff Data For the Year Ended June 30, 2012

2012	All Classroom Teachers	Classroom Teachers Excluding ROTC And Retired Retirees
Average Classroom Teachers' Salary Including Extra Compensation	\$45,124	\$45,124
Average Classroom Teacher's Salary Excluding Extra Compensation	\$43,143	\$43,143
Number of Teacher Full-time Equivalents (FTEs) used in Computation of Average Salaries	7	7

Note: Figures reported include all sources of funding (i.e. federal, state, and local) but exclude employee benefits. Generally, retired teachers referred to teach receive less compensation than non-retired teachers and ROTC teachers receive more compensation because of a federal supplement. Therefore, these teachers are excluded from the computation in the last column. This schedule excludes day-to-day substitutes and temporary employees.

Prepared by Lycee Francais de la Nouvelle Orleans

Schedule 6: Class Size Characteristics
As of October 1, 2011

School Type	Class Size Range											
	1-20			21-26			27-33			34+		
	Percent	Number		Percent	Number		Percent	Number		Percent	Number	
Elementary	50.00%	3	3	50.00%	3	3	0.00%	-	0.00%	-	0.00%	-
Elementary Activity Classes	0.00%	-	-	0.00%	-	-	0.00%	-	0.00%	-	0.00%	-
Middle/Junior High	0.00%	-	-	0.00%	-	-	0.00%	-	0.00%	-	0.00%	-
Middle/Junior High Activity Classes	0.00%	-	-	0.00%	-	-	0.00%	-	0.00%	-	0.00%	-
High	0.00%	-	-	0.00%	-	-	0.00%	-	0.00%	-	0.00%	-
High Activity Classes	0.00%	-	-	0.00%	-	-	0.00%	-	0.00%	-	0.00%	-
Combination	0.00%	-	-	0.00%	-	-	0.00%	-	0.00%	-	0.00%	-
Combination Activity Classes	0.00%	-	-	0.00%	-	-	0.00%	-	0.00%	-	0.00%	-

Note: The Board of Elementary and Secondary Education has set specific limits on the maximum size of classes at various grade levels. The maximum enrollment in grades K-3 is 26 students and maximum enrollment in grades 4-12 is 33 students. These limits do not apply to activity classes such as physical education, chorus, band, and other classes without maximum enrollment standards. Therefore, these classes are included only as separate line items