



JAMES ISLAND CHARTER HIGH SCHOOL

REPORT TO THE BOARD OF DIRECTORS

For the year ended June 30, 2018

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Board of Directors
James Island Charter High School
Charleston, South Carolina

To the Members of the Board of Directors:

We are pleased to present this report related to our audit of the financial statements of James Island Charter High School (the "School") as of and for the year ended June 30, 2018. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the School's financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to you.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Charleston, South Carolina
October 11, 2018

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Required Communications about the Financial Statement Audit

AU-C Section 260, *The Auditor's Communications With Those Charged With Governance*, and other professional and regulatory standards require the auditor to communicate certain matters related to the conduct of an audit to those who have responsibility for the oversight of the financial reporting process. The following summarizes these communications.

Audit Planning Process

Our audit approach placed a strong emphasis on obtaining an understanding of how your School functions. This enabled us to identify key audit components and tailor our procedures to the unique aspects of your business.

We obtained an understanding of internal control to assess the impact of internal control on determining the nature, timing and extent of audit procedures, and we established an overall materiality limit for audit purposes. We conducted formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error.

We used this knowledge and understanding, together with other factors, to first assess the risk that errors or fraud may cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides us with parameters within which to design the audit procedures for specific account balances and classes of transactions. Our risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the School's internal control).

We then determined the nature, timing and extent of tests of controls and substantive procedures necessary given the risks identified and the controls as we understand them.

Materiality in Planning and Executing the Audit

In planning the audit, the materiality limit is viewed as the maximum aggregate amount of misstatements, which if detected and not corrected, would cause us to modify our opinion on the financial statements. The materiality limit is an allowance not only for misstatements that will be detected and not corrected but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit was based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods.

Internal Control Relevant to the Audit

Our audit of the financial statements included obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Our review and understanding of the School's internal control was not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.

Auditor's Responsibility Under Professional Standards

As communicated in our engagement letter dated May 15, 2018, our responsibility, as prescribed by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles 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 of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. 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. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audit accomplished that objective.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. A summary of the significant accounting policies adopted by the School is included in Note 1 to the financial statements.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the School. The School implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, during the fiscal year ended June 30, 2018. The implementation of the statement required the School to record beginning net OPEB liability and the effects on unrestricted net position of contributions made by the School during the measurement period (fiscal year ended June 30, 2017). As a result, ending net position for the School for the year ended June 30, 2017 decreased by \$13,393,127. This decrease resulted in the restatement of net position to a deficit balance of \$23,321,056 as of June 30, 2017.

Significant Accounting Policies, continued***Significant or Unusual Transactions***

We noted no transactions entered into by the School during the year that were both significant and unusual, and that, under professional standards, we are required to inform you of, or a transaction in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We have had discussions with management regarding the accounting treatment for certain transactions. However, there were no instances in the current year in which discussions revolved around transactions for which alternative accounting treatments are allowable under accounting principles generally accepted in the United States of America.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the School to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. These estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ markedly from management's current judgments.

Financial Statement Disclosures

The disclosures in the financial statements appear to be neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Audit Adjustments

Audit adjustments recorded by the School are shown on the attached "Summary of Audit Adjustments", **Appendix A**.

Uncorrected Misstatements

There were no uncorrected misstatements identified in connection with the audit of the School.

Management Representations

We have requested certain written representations from management that are included in the management representation letter dated October 11, 2018. A copy of that correspondence is included in **Appendix B** for your information.

Disagreements with Management

For the purposes of this communication, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the School's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Consultations with Other Accountants

Management may consult with other accountants about auditing and accounting matters on certain situations. If a consultation involves the application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to notify us to determine that the consulting accountant has all the relevant facts. To our knowledge, and as management has informed us, there were no such consultations with other accountants regarding auditing and accounting matters other than those routine consultations with KM Consulting, LLC.

Significant Issues Discussed with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management relating to the performance of our audit and we appreciate the cooperation received.

Certain Written Communications Between Management and Our Firm

Attached in **Appendix B** are copies of certain other written communications between management and Elliott Davis, LLC.

Appendix A

**Summary of Audit Adjustments
For the Year Ended June 30, 2018**

During the course of our audit, certain adjustments were recorded. Following is a summary of those adjustments:

Recorded Adjustments

Date	Name	Account No	Debit	Credit
6/30/2018	Cornerstone Medicaid Nurses	881-3250 GF		2,259.95
6/30/2018	Medicaid Payments	881-411-600 GF	2,259.95	
	To account for Medicaid Match per CCSD confirm.			
6/30/2018	ACCOUNTS PAYABLE	0410 GF		6,479.32
6/30/2018	Supplies	100-114-410 GF	565.05	
6/30/2018	Travel	100-115-332 GF	505.11	
6/30/2018	Supplies	100-115-410 GF	344.52	
6/30/2018	Travel	100-144-332 GF	2,231.46	
6/30/2018	Instructional Programs Improvement	100-224-312 GF	2,167.20	
6/30/2018	Travel	100-224-332 GF	52.55	
6/30/2018	Communication	100-233-340 GF	188.56	
6/30/2018	Supplies	100-233-410 GF	29.23	
6/30/2018	Travel	100-271-332 GF	239.61	
6/30/2018	Supplies	100-271-410 GF	156.03	
	To adjust AP for June charges on the July credit cards that were improperly excluded.			
6/30/2018	ACCOUNTS PAYABLE	0410 GF		37,901.75
6/30/2018	Energy (Electric, Gas, and Other He	100-254-470 GF	37,901.75	
	To adjust AP to properly include June electric bill.			
6/30/2018	Accounts Receivable	0130 GF	59,870.10	
6/30/2018	Accounts Payable	0410 PAF		59,870.10
	To record payable to the General Fund for student activities that were paid for from the general operating account.			

Appendix B

**Material Written Communications
For the Year Ended June 30, 2018**

Copies of these communications are attached.



James Island Charter High School

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Charleston, SC 29412

Timothy Thorn, Principal
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October 11, 2018

Elliott Davis, LLC
100 Calhoun Street, Suite 300
Charleston, South Carolina 29401

This representation letter is provided in connection with your audit of the financial statements of James Island Charter High School (the School), which comprise the respective financial position of the governmental activities and each major fund as of June 30, 2018, and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of October 11, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated May 15, 2018, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions, including those with the Charleston County School District, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, loans, leasing arrangements, and guarantees, have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
7. The effects of all known actual or possible litigation, claims and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

8. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Net positions and fund balance classifications.
 - b. All leases and material amounts of rental obligations under long-term leases.
 - c. All significant estimates and material concentrations known to management which are required to be disclosed.
9. There are no:
 - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.
 - d. Guarantees, whether written or oral, under which the School is contingently liable.
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - f. Line of credit or similar arrangements.
 - g. Agreements to repurchase assets previously sold.
 - h. Security agreements in effect under the Uniform Commercial Code.
 - i. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - j. Investments.
 - k. Liabilities which are subordinated in any way to any other actual or possible liabilities.
 - l. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
 - m. Debt issue provisions.
 - n. Authorized but unissued bonds and/or notes.
 - o. Derivative financial instruments.
 - p. Special or extraordinary items.
 - q. Deposits and investment securities categories of risk.
 - r. Impairment of capital assets.
 - s. Environmental clean-up obligations.
 - t. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities recorded on the books.

10. The School has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledge as collateral.
11. Components of net position and classifications of fund balances are properly classified and, when applicable, approved.
12. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the Statement of Activities, and allocations have been made on a reasonable basis.
13. Revenues are appropriately classified in the statements of activities within program revenues and general revenues.
14. Capital assets are properly capitalized, reported, and depreciated.
15. We are not aware of any pending or threatened litigation, claims, or assessments that are required to be accrued or disclosed in the financial statements.
16. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.
17. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
18. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

19. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the School from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the board of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
20. All transactions have been recorded in the accounting records and are reflected in the financial statements.
21. We have not performed a formal risk assessment.
22. We have no knowledge of allegations of fraud or suspected fraud, affecting the School and involves:
 - a. Management,
 - b. Employees who have significant roles in the internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.

23. We have no knowledge of any allegations or suspected fraud affecting the School's financial statements communicated by employees, former employees, regulators, or others.
24. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects were considered when preparing financial statements.
25. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
26. We have disclosed to you the identity of the School's related parties and all the related-party relationships and transactions of which we are aware.
27. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the School's ability to record, process, summarize, and report financial data.
28. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

29. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
30. With respect to required supplementary information, such as Management's Discussion and Analysis, Budgetary Comparison Schedule – General Fund, Schedules of the School's Contributions and Proportionate Share of the Net Pension Liability and Schedules of the School's Contributions and Proportionate Share of the Net OPEB Liability, presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period, other than as noted with the adoption of GASB 75.

In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm that management:

31. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
32. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.
33. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
34. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
35. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
36. Is responsible for 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.
37. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
38. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; or abuse that the auditor reports.
39. Has a process to track the status of audit findings and recommendations.
40. Has identified for the auditor previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
41. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
42. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

43. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

James Island Charter High School

A handwritten signature in black ink, appearing to read "Tim Thorn", is written over a light blue horizontal line.

Tim Thorn, Principal