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**MEMORANDUM**

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**TO:** BOARD OF TRUSTEES  
**CC:** FULL REGIONAL LEADERSHIP TEAM  
**FROM:** WHITNEY JONES, MANAGING DIRECTOR OF FINANCE  
**SUBJECT:** INTER-ENTITY RECONCILIATION  
**DATE:** NOVEMBER 3, 2021

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***Background***

At the conclusion of the FY18 financial audit, CliftonLarsonAllen noted the growth of the inter-entity balances across the organization. The finance team proposed an entry as part of the FY20 financial audit that included writing-off any “debt” on the schools’ balance sheets and writing-off these amounts to KASC. The proposed methodology balanced the need for reconciliation with the capacity of the finance team. At the direction of the board, that entry was reversed to take more time to reconcile the accounts. EdOps provided a quote for reconciliation based on review of individual journal entries. Ultimately, the team elected to work with PricewaterhouseCoopers (PwC) on a pro bono engagement.

***Update***

Over the past several months, the finance team has collaborated with PwC to reconcile the accounts at all entities. Key findings include:

- the balances began to significantly increase with the disintegration of the original KPCS charter (now KASC, KDCS, and KPCS) and the opening of new schools;
- all activity was recorded in one account for each charter, eliminating ability to track activity between individual entities; and
- general ledger includes automated and manual journal entries, the latter being more prone to human error.

A summary of the balances is as follows:

Entity	6/30/21 Balances	Reconciled balances	Unreconciled Balance
KASC	7,156,704	2,846,259	4,310,445
KDCS	(218,494)	(196,935)	(21,559)
KNPCS	(694,424)	(398,994)	(295,430)
KPCS	(4,026,548)	(1,881,012)	(2,145,536)
KWPCS	(2,227,465)	(369,319)	(1,858,146)
<b>TOTAL VARIANCE</b>	<b>(10,227)</b>	-	<b>(10,227)</b>

This activity is reflective of the following:

- remaining balance of improvements at Rowan campus;
- 4Q21 CMO fees owed to KASC;
- 4Q21 AMEX reimbursement owed to KPCS;
- rent payments owed to KASC from KNPCS; and
- KDCS' portion of the legal settlement owed to KPCS.

In September 2021, the team from PwC informed the finance team additional reconciliation would require a review of individual journal entries.

**Recommendation**

KASC should proceed with the following actions:

1. Write-off the remaining balance for leasehold improvements at KPCS (\$2.825M).
2. Write-off the \$10K variance to KASC. This will be reflected as an additional expense.
3. Transfer cash for all remaining reconciled balances.
4. Write-off remaining unreconciled balances over the next several years.

In support of the final recommendation, the unreconciled balances are segregated in a general ledger account separate from ongoing activity. The finance team will review accounts each year to determine what portion, if any, of the historical balances can be written-off to KASC.

Respectfully submitted,

Whitney Jones