

FIRSTLINE SCHOOLS, INC.

**FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL POSITION	5
STATEMENT OF ACTIVITIES	6
STATEMENT OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	8
SUPPLEMENTARY INFORMATION:	
SCHEDULE I - Schedule of Expenditures of Federal Awards	18
SCHEDULE II - Combining Schedule of Financial Position.....	19
SCHEDULE III - Combining Schedule of Activities	20
SCHEDULE IV - Combining Schedule of Cash Flows	21
SCHEDULE V - Schedule of Compensation, Benefits and Other Payments to the Chief Executive Officer.....	22
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	23
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE.....	26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	30
SCHEDULE OF PRIOR YEAR FINDINS AND QUESTIONED COSTS	35



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA
Joseph A. Akanji, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
FirstLine Schools, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **FirstLine Schools, Inc. (FirstLine)** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
FirstLine Schools, Inc.

Auditors' Responsibility, Continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **FirstLine** as of June 30, 2018, 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.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
FirstLine Schools, Inc.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CRF) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Also, the accompanying combining schedules and the accompanying Schedule of Compensation, Benefits and Other Payments to the Chief Executive Officer are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
FirstLine Schools, Inc.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2019 on our consideration of **FirstLine's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **FirstLine's** internal control over financial reporting and compliance.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

April 15, 2019

FIRSTLINE SCHOOLS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Cash and cash equivalents (NOTES 1 and 4)	\$ 1,335,271
Cash held for others	14,530
Grants receivable (NOTE 8)	2,490,520
Other receivables	813,582
Deposit receivables	495,307
Property and equipment, net (NOTES 1 and 2)	<u>977,967</u>
 Total assets	 <u><u>\$ 6,127,177</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 2,206,441
Accrued liabilities	885,738
Funds held on behalf of others	5,079
Loan payable	<u>1,450,000</u>
 Total liabilities	 <u>4,547,258</u>
 Net Assets:	
Unrestricted	<u>1,579,919</u>
 Total net assets	 <u>1,579,919</u>
 Total liabilities and net assets	 <u><u>\$ 6,127,177</u></u>

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

FIRSTLINE SCHOOLS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Local sources:			
Minimum Foundation Program	\$ 17,067,154	\$ -	\$ 17,067,154
Management fee	9,330	-	9,330
Contributions	1,121,724	1,627,298	2,749,022
Interest earnings	1,938	-	1,938
Fundraising activities	32,200	-	32,200
Other	833,363	-	833,363
Total local sources	<u>19,065,709</u>	<u>1,627,298</u>	<u>20,693,007</u>
State sources:			
Minimum Foundation Program	12,365,450	-	12,365,450
Grants	467,821	-	467,821
Total state sources	<u>12,833,271</u>	<u>-</u>	<u>12,833,271</u>
Federal grants	<u>8,179,382</u>	<u>-</u>	<u>8,179,382</u>
Net assets released from restrictions (NOTE 7)	<u>643,250</u>	<u>(643,250)</u>	<u>-</u>
Total revenues	<u>40,721,612</u>	<u>984,048</u>	<u>41,705,660</u>
<u>EXPENSES</u>			
Program Services:			
Instruction programs	17,009,474	-	17,009,474
Support Services:			
Pupil support services	3,565,120	-	3,565,120
Instructional staff services	2,107,507	-	2,107,507
School administration	4,797,213	-	4,797,213
Business services	2,795,188	-	2,795,188
Operations and maintenance	3,382,068	-	3,382,068
Student transportation services	2,976,320	-	2,976,320
Central services fee	467,271	-	467,271
Food services operations	3,281,826	-	3,281,826
Fundraising	1,697	-	1,697
Depreciation	241,409	-	241,409
Total expenses	<u>40,625,093</u>	<u>-</u>	<u>40,625,093</u>
Changes in net assets	96,519	984,048	1,080,567
Net assets, beginning of year	<u>(171,884)</u>	<u>671,236</u>	<u>499,352</u>
Net assets, end of year	<u>\$ (75,365)</u>	<u>\$ 1,655,284</u>	<u>\$ 1,579,919</u>

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

FIRSTLINE SCHOOLS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	\$ 1,080,567
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation expense	241,409
Non-ash items	59,424
Changes in assets and liabilities:	
Decrease in prepaid expense	22,076
Increase in grants receivable	(1,166,902)
Increase in other receivables	(80,223)
Increase in other assets	(495,309)
Increase in accounts payable	305,842
Decrease in accrued liabilities	(174,353)
Decrease in funds held on behalf of others	(161,093)
Net cash used in operating activities	<u>(368,562)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	<u>(16,800)</u>
Net cash used in investing activities	<u>(16,800)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from loan payable	1,150,000
Payment on loan payable	<u>(500,000)</u>
Net cash provided by financing activities	<u>650,000</u>
Increase in cash and cash equivalents	264,638
Cash and cash equivalents, beginning of year	<u>1,085,157</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,349,795</u></u>

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

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

General

FirstLine Schools, Inc. (FirstLine) is a nonprofit organization formed in 1998 to serve as the chartering group for Arthur Ashe Charter School (Ashe) formerly known as New Orleans Charter Middle School (NOCMS). **FirstLine** was also granted charters by the Louisiana Board of Elementary and Secondary Education (BESE) to operate Samuel J. Green Charter School (Green) beginning in the 2005-2006 school year, Phillis Wheatley Charter School (Wheatley) beginning in the 2010-2011 school year, Joseph S. Clark Charter School (Clark) beginning in the 2011-2012 school year and Langston Hughes Charter School (Hughes) beginning in the 2012-2013 school year. **FirstLine** transferred governance for four of their five charters (Ashe, Green, Wheatley and Langston Hughes) to Orleans Parish School Board on July 1, 2017. The board of directors consists of individuals with experience in business and education that have an interest in public education.

FirstLine assumed operation of Live Oak Charter School (formerly ReNew Cultural Arts Academy) on July 1, 2018. Orleans Parish School Board awarded the charter to **FirstLine** in the 2017-18 school year to do a transformation (turnaround) school for use in the 2018-19 school year.

The mission of **FirstLine** is to create and inspire great open admissions public schools in New Orleans. **FirstLine's** schools will prepare students for college and fulfilling careers by achieving the following primary objectives:

- o Ensuring all of its students are on track to be academically prepared for success in a college preparatory high school and college as demonstrated by achievement, aspiration, love of learning, and confidence;
- o Providing a rich variety of experiences for its students to nurture character, health, and active citizenship; and
- o Developing the skillfulness of its staff and building sustainable organizations that facilitate its long-term success.

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

General, Continued

In the 2017-2018 school year, Green, Ashe, Wheatley, Clark and Hughes served the following number of students:

Green	513
Ashe	836
Wheatley	789
Clark	97
Hughes	<u>808</u>
Total	<u>3,043</u>

Basis of Accounting

FirstLine's financial statements are prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenue is recorded when earned and expenses are recorded when incurred.

Use of Estimates

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

Property and Equipment

Property and equipment of **FirstLine** with a cost of \$5,000 or more are recorded as assets (capitalized) and are stated at historical costs, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset are capitalized.

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Property and Equipment, Continued

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific use.

Grant Revenue

Revenues from governmental grants are recognized when allowable expenses are made by **FirstLine**. Funds received for specific purposes but not yet expended are recorded as deferred revenue.

Grants Receivable

Grants receivable are stated at the amount management expects to collect from outstanding balances. The financial statements do not include an estimate for allowance for doubtful accounts. Management believes that all receivables are collectible.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash equivalents include all highly liquid instruments purchased with original maturities of three (3) months or less. The caption cash and cash equivalents on the Statement of Cash Flows includes cash and cash equivalents and cash held for others from the Statement of Financial Position.

Income Taxes

FirstLine is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

FirstLine files as a tax-exempt organization. Should that status be challenged in the future, **FirstLine's** 2017, 2016 and 2015 tax years are open for examination by the IRS.

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Financial Statement Presentation

For the year ended June 30, 2018, **FirstLine** followed the requirements of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*, in the presentation of its financial statements. Under FASB ASC Section 958-205, **FirstLine** is required to report, as applicable, information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. In addition, **FirstLine** is required to present a statement of cash flows.

A description of the three net asset categories is as follows:

- o Unrestricted net assets include support, revenues, and expenses for the general operations of **FirstLine**.
- o Temporarily restricted net assets include contributions for which donor-imposed restrictions have not been met.
- o Permanently restricted net assets are contributions which are required by donor-imposed restriction to be held in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor-imposed restrictions.

At June 30, 2018, **FirstLine** had no permanently restricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded as pledges receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met. Management has determined that the pledges receivable are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at June 30, 2018.

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Contributions

FirstLine accounts for contributions in accordance with FASB ASC Section 958-605, *Not-for-Profit Entities, Revenue Recognition*, in accounting for contributions received and contributions made. In accordance with FASB ASC Section 958-605, contributions are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence and nature of any donor-imposed restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Minimum Foundation Program (MFP)

As Type 5 charter schools, Ashe, Green, Wheatley, Clark and Hughes received funding from BESE in an amount for pupils based on estimated daily attendance of pupils at the schools. The amount of funding received is adjusted during the school year based on the October 1st and February 1st student counts and the results of any audits performed.

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 program and support services in the accompanying statement of activities.

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

Vacation Leave

Vacation for full-time employees is accrued on a monthly basis. Employees receive two (2) weeks annual vacation for the first five (5) years of employment. After five (5) years, employees receive three (3) weeks of vacation. After eleven (11) years, employees receive four (4) weeks of vacation.

Paid Leave

Employees earn ten (10) days paid leave per year to be used in the event of their own illness, a family illness, bereavement, or personal business. Such paid leave may be used for the purpose of visiting doctors, dentist or other recognized practitioners. Employees may also use paid leave for the above reasons when it relates to immediate family members only. Paid leave cannot be carried from one year to the next, and **FirstLine** will not pay the employee for unused leave upon termination.

NOTE 2 - PROPERTY AND EQUIPMENT:

The following is a summary of property and equipment at June 30, 2018:

Land	\$ 152,504
Building improvements	1,970,706
Equipment	<u>2,001,442</u>
Total property and equipment	4,367,332
Less: accumulated depreciation	<u>(3,389,365)</u>
Net property and equipment	<u>\$977,967</u>

For the year ended June 30, 2018, depreciation expense was \$241,409.

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - RISK MANAGEMENT:

FirstLine is exposed to various risks of loss related to torts, theft of, damage to and destruction of property for which **FirstLine** carries commercial liability insurance coverage.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE 4 - CONCENTRATION OF CREDIT RISK:

FirstLine maintains noninterest-bearing and interest-bearing accounts at local banks. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage on deposit accounts for deposit amounts up to \$250,000. The FDIC insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. Total uninsured cash balances at June 30, 2018 were \$668,992.

NOTE 5 - CONTINGENCY:

FirstLine is a recipient of grants from local, state and federal funding agencies. The grants are governed by various local, state and federal guidelines, regulations, and contractual agreements.

The administration of the programs and activities funded by these grants are under the control and administration of **FirstLine** and are subject to audit and/or review by grantors. Any grant funds found to be not properly spent in accordance with the terms, conditions, and regulations of local, state and federal agencies may be subject to recapture.

NOTE 6 - IN-KIND CONTRIBUTIONS:

FirstLine received rent-free use of school buildings and certain furniture and equipment from the Louisiana Recovery School District for Ashe, Green, Clark and Hughes Charter Schools. The estimated values of the buildings, furniture and equipment were not readily determinable and no amounts have been recorded in the accompanying financial statements.

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - IN-KIND CONTRIBUTIONS, CONTINUED:

FirstLine also receives donated services from a number of unpaid volunteers assisting **FirstLine** with its programs, activities, and operations. An estimated value of these services cannot be reasonably determined as a result of the variety of services provided by and the varying qualifications of the volunteers. Because the criteria for recognition under FASB ASC Section 958-605-25 have not been satisfied, these donated services are not recorded in the financial statements.

NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS:

For the year ended June 30, 2018, net assets were released from donor restrictions in the amount of \$643,250 by incurring expenses satisfying the restricted purposes specified by donors for the Edible School Yard Program.

NOTE 8 - GRANTS RECEIVABLE:

At June 30, 2018, grants receivable consisted of the following sources:

Federal	\$ 1,801,946
State	23,607
Local	<u>664,967</u>
	<u>\$2,490,520</u>

NOTE 9 - SUBSEQUENT EVENTS:

FirstLine is required to evaluate events or transactions that may occur after the statement of financial position date for potential recognition or disclosure in the financial statements. **FirstLine** performed such an evaluation through April 15, 2019, the date which the financial statements were available to be issued, and noted no subsequent events or transactions that occurred after the statement of financial position date requiring recognition or disclosure.

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 10 - BOARD COMPENSATION:

The Board of Directors of **FirstLine** is a voluntary board; therefore, no compensation was paid to any board member during the year ended June 30, 2018.

NOTE 11 - CONCENTRATION OF REVENUE SOURCE:

FirstLine's primary source of funding is through the Minimum Foundation Program (MFP) funded by the State Public School Fund. **FirstLine** receives a State allocation and a local allocation per eligible student in attendance at the official pupil count date of October 1st, each year. MFP revenue accounts for 69% of **FirstLine's** total support for the year ended June 30, 2018.

NOTE 12 - OPERATING LEASE:

In April 2013, **FirstLine** entered into a lease agreement with the Wheatley School Facility Foundation, Inc. for the use of Phyllis Wheatley Elementary School facilities and grounds. The lease provides for monthly payments of \$27,280 for the first two years from the effective date, increasing thereafter at 1 ½% per year. The new lease shall commence on the effective date and shall remain effective for seven (7) years, unless terminated in accordance with the term of the underlying master lease agreement or charter school contract.

Future minimum commitments under the Wheatley lease agreement are as follows.

<u>Year</u>	<u>Amount</u>
2019	\$ 342,313
2020	347,448
2021	352,660
2022	<u>357,950</u>
Total	<u>\$1,400,371</u>

FIRSTLINE SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 13 - LOAN PAYABLE:

A private foundation has provided an unsecured, interest-free loan totaling \$1,450,000 for **FirstLine's** operations. Principal on the loan is due in full at maturity in the 2019 fiscal year. When the loan proceeds were advanced, **FirstLine** recorded contribution revenue and a loan discount using an 8% rate. The loan is reported in the statement of financial position net of unamortized discount of \$110,520 at June 30, 2018.

NOTE 14 - NEW PRONOUNCEMENTS:

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14 affecting ASC 958, *Not-for-Profit Entities*, which establishes standards for external financial reporting by not-for-profit organizations. The primary objective of this Update is to make certain improvements to the current reporting practices of not-for-profit entities. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018.

The FASB also issued Accounting Standards Update No. 2016-02 affecting ASC 842, *Leases*, which provides guidance for any entity that enters into a lease (as defined in this Update), with some specified scope exemptions. The guidance in this Update supersedes ASC 840 *Leases*. The primary objective of this Update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities in the statement of financial position and disclosing key information about leasing arrangements. The amendments in this Update are effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE I

Federal Grantor/Program Name	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Education</u>		
<i><u>Awards from a Pass-Through Entity</u></i>		
<u>Passed-Through: LA State Department of Education</u>		
IASA Title I, Part A	84.010	\$ 1,977,566
IASA Title II, Part A	84.367	45,443
IASA Title IV, Part A	84.298	20,523
IDEA, Part B	84.027	588,950
IDEA B- High Cost Services	84.282C	346,387
21st Century	84.287	379,569
Striving Readers Comprehensive Literacy	84.371	90,094
School Improvement Grants (Section 1003(g) of the ESSEA)	84.377	383,982
Total LA State Department of Education		3,832,514
 <u>Passed-Through: New Schools for New Orleans</u>		
Charter School Program	84.282C	163,779
Total New Schools for New Orleans		163,779
Total U.S. Department of Education		3,996,293
 <u>U.S. Department of Agriculture</u>		
<i><u>Awards from a Pass-Through Entity</u></i>		
<u>Passed-Through: LA State Department of Education</u>		
Child Nutrition Cluster:		
Summer Feeding	10.559	50,655
Food Service School Supper Program	10.558	1,240,607
National School Lunch Program and Breakfast Program	10.555, 10.553	2,446,594
Fresh Fruit and Vegetable Program	10.582	55,362
Department of Defense Commodity Credits	10.xxx	201,410
Total U.S. Department of Agriculture		3,994,628
 <u>U.S Department of Health and Human Services</u>		
<i><u>Awards from a Pass-Through Entity</u></i>		
<u>Passed-Through: Recovery School District</u>		
Temporary Assistance for Needed Families	93.558	188,461
U.S Department of Health and Human Services		188,461
Total Expenditures of Federal Awards		\$ 8,179,382

NOTE: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Firstline under programs of the federal government for the year ended June 30, 2018 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts in, or used in the preparation of, the basic financial statements.

See Independent Auditors' Report on Supplementary Information.

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2018

SCHEDULE II

	FirstLine Network Activity	Live Oak	Arthur Ashe Charter School	Samuel J. Green Charter School	Phillis Wheatley Charter School	Joseph S. Clark Charter School	Langston Hughes Academy Charter School	Eliminations	Total
ASSETS									
Cash and cash equivalents	\$ (1,002,041)	\$ 239,159	\$ 829,715	\$ 80,792	\$ 1,125,699	\$ (599,754)	\$ 661,701	\$ -	\$ 1,335,271
Cash held for others	-	-	477	2,339	4	2,323	9,387	-	14,530
Grants receivable	482,887	-	298,814	371,902	382,079	451,415	503,423	-	2,490,520
Other receivables	795,711	-	3,976	520	7,495	3,156	2,722	-	813,580
Deposit receivables	459,805	-	1,800	24,060	9,644	-	-	-	495,309
Due from other programs	20,805,231	1,836,000	17,514,621	10,647,787	14,642,882	5,403,336	16,047,879	(86,897,736)	-
Property and equipment, net	197,900	-	327,673	59,175	322,745	-	70,474	-	977,967
Total assets	\$ 21,739,493	\$ 2,075,159	\$ 18,977,076	\$ 11,186,575	\$ 16,490,548	\$ 5,260,476	\$ 17,295,586	\$ (86,897,736)	\$ 6,127,177
LIABILITIES AND NET ASSETS									
Liabilities:									
Accounts payable	\$ 283,595	\$ 30,687	\$ 435,067	\$ 379,609	\$ 443,627	\$ 117,057	\$ 516,799	-	\$ 2,206,441
Accrued liabilities	4,468	1,291	225,186	159,328	220,846	42,814	231,805	-	885,738
Funds held on behalf of others	5,079	-	-	-	-	-	-	-	5,079
Loan payable	1,450,000	-	-	-	-	-	-	-	1,450,000
Due to other programs	21,510,342	1,838,400	16,726,899	10,776,001	15,225,805	5,448,212	15,372,077	(86,897,736)	-
Total liabilities	23,253,484	1,870,378	17,387,152	11,314,938	15,890,278	5,608,083	16,120,681	(86,897,736)	4,547,258
Net Assets:									
Unrestricted	(1,513,991)	204,781	1,589,924	(128,363)	600,270	(347,607)	1,174,905	-	1,579,920
Total net assets	(1,513,991)	204,781	1,589,924	(128,363)	600,270	(347,607)	1,174,905	-	1,579,919
Total liabilities and net assets	\$ 21,739,493	\$ 2,075,159	\$ 18,977,076	\$ 11,186,575	\$ 16,490,548	\$ 5,260,476	\$ 17,295,586	\$ (86,897,736)	\$ 6,127,177

See Independent Auditors' Report on Supplementary Information.

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE III

	FirstLine Network Activity	Live Oak	Arthur Ashe Charter School	Samuel J. Green Charter School	Phillis Wheatley Charter School	Joseph S. Clark Charter School	Langston Hughes Academy Charter School	Eliminations	Total
REVENUES									
Local sources:									
Minimum Foundation Program	\$ -	\$ -	\$ 4,605,961	\$ 2,839,030	\$ 4,812,305	\$ 538,654	\$ 4,271,204	\$ -	\$ 17,067,154
Administrative fee revenue	9,330		-	-	-	-	-	-	9,330
Management fee	2,853,026		-	-	-	-	-	(2,853,026)	-
Contributions-unrestricted	626,206	325,000	25,742	88,671	13,461	12,611	30,033	-	1,121,724
Contributions-temporarily restricted	1,627,298		-	-	-	-	-	-	1,627,298
Interest earnings	1,763		145	30	-	-	-	-	1,938
Fundraising activities	32,200		-	-	-	-	-	-	32,200
Other	136,823	174	138,395	132,464	141,131	59,731	224,645	-	833,363
Total local sources	<u>5,286,646</u>	<u>325,174</u>	<u>4,770,243</u>	<u>3,060,195</u>	<u>4,966,897</u>	<u>610,996</u>	<u>4,525,882</u>	<u>(2,853,026)</u>	<u>20,693,007</u>
State sources:									
Minimum Foundation Program	-		3,206,255	2,178,156	3,067,499	714,000	3,199,540	-	12,365,450
Grants	218,400		47,141	51,223	72,788	4,161	74,108	-	467,821
Total state sources	<u>218,400</u>	<u>-</u>	<u>3,253,396</u>	<u>2,229,379</u>	<u>3,140,287</u>	<u>718,161</u>	<u>3,273,648</u>	<u>-</u>	<u>12,833,271</u>
Federal grants	393,167		1,887,439	1,003,995	1,804,752	690,737	2,399,292	-	8,179,382
Total revenues	<u>5,898,213</u>	<u>325,174</u>	<u>9,911,078</u>	<u>6,293,569</u>	<u>9,911,936</u>	<u>2,019,894</u>	<u>10,198,822</u>	<u>(2,853,026)</u>	<u>41,705,660</u>
EXPENSES									
Program Services:									
Instruction programs	302,904	4,954	4,670,526	3,398,461	4,238,925	652,294	3,741,410	-	17,009,474
Support Services:									
Pupil support services	153,435	3,212	602,425	275,459	565,103	459,006	1,506,480	-	3,565,120
Instructional staff services	1,493,372	2,655	189,246	174,934	111,197	22,811	113,292	-	2,107,507
General administration	460,658		53,595	18,402	36,544	9,353	29,587	-	608,139
School administration	67,222	86,172	805,751	734,290	943,950	469,155	1,082,534	-	4,189,074
Business services	1,975,868	1,771	202,559	218,365	164,354	43,564	188,707	-	2,795,188
Operations and maintenance	522,364	21,629	537,473	457,066	946,281	296,591	600,664	-	3,382,068
Student transportation services	-		719,729	578,884	620,469	272,572	784,666	-	2,976,320
Central services	334,417		36,375	35,368	15,978	333	44,800	-	467,271
Central services fee	-		959,901	205,019	862,499	-	825,607	(2,853,026)	-
Food services operations	108,646		930,753	337,204	828,121	70,264	1,006,838	-	3,281,826
Fundraising	1,697		-	-	-	-	-	-	1,697
Depreciation	6,519		85,426	24,858	87,264	1,747	35,595	-	241,409
Total expenses	<u>5,427,102</u>	<u>120,393</u>	<u>9,793,759</u>	<u>6,458,310</u>	<u>9,420,685</u>	<u>2,297,690</u>	<u>9,960,180</u>	<u>(2,853,026)</u>	<u>40,625,093</u>
Changes in net assets	471,111	204,781	117,319	(164,741)	491,251	(277,796)	238,642	-	1,080,567
Net assets, beginning of year	(1,985,102)		1,472,605	36,378	109,019	(69,811)	936,263	-	499,352
Net assets, end of year	<u>(1,513,991)</u>	<u>204,781</u>	<u>\$ 1,589,924</u>	<u>\$ (128,363)</u>	<u>\$ 600,270</u>	<u>\$ (347,607)</u>	<u>\$ 1,174,905</u>	<u>\$ -</u>	<u>\$ 1,579,919</u>

See Independent Auditors' Report on Supplementary Information.

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE IV

	<u>FirstLine Network Activity</u>	<u>Live Oak</u>	<u>Arthur Ashe Charter School</u>	<u>Samuel J. Green Charter School</u>	<u>Phillis Wheatley Charter School</u>	<u>Joseph S. Clark Charter School</u>	<u>Langston Hughes Academy Charter School</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:								
Changes in net assets	\$ 471,111	\$ 204,781	\$ 117,319	\$ (164,741)	\$ 491,251	\$ (277,796)	\$ 238,642	\$ 1,080,567
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:								
Depreciation expense	6,519	-	85,426	24,858	87,264	1,747	35,595	241,409
Other non-cash items	59,424	-	-	-	-	-	-	59,424
Changes in assets and liabilities:								
Decrease in prepaid expense	12,410	-	289	2,342	4,391	2,079	565	22,076
(Increase) decrease in grants receivable	149,684	-	(267,940)	(249,639)	(169,237)	(279,216)	(350,554)	(1,166,902)
(Increase) decrease in other receivables	(128,482)	-	4,398	23,889	5,705	(1,344)	15,611	(80,223)
(Increase) decrease in other assets	(459,805)	-	(1,800)	(24,060)	(9,644)	-	-	(495,309)
(Increase) decrease in due from other programs	(16,367,575)	(1,836,000)	(13,885,482)	(8,535,091)	(12,226,964)	(4,456,930)	(12,950,641)	(70,258,683)
Increase (decrease) in accounts payable	(52,080)	30,687	(8,614)	117,815	99,225	(28,128)	146,937	305,842
Increase (decrease) in accrued liabilities	(25,371)	1,291	(16,739)	(3,645)	(28,258)	(81,621)	(20,010)	(174,353)
Decrease (increase) in funds held on behalf of others	5,079	-	(49,969)	(15,059)	(42,310)	(7,812)	(51,022)	(161,093)
Increase in due to other programs	13,884,695	1,838,400	14,759,915	8,889,429	12,887,835	4,521,775	13,476,634	70,258,683
Net cash provided by (used in) operating activities	<u>(2,444,391)</u>	<u>239,159</u>	<u>736,803</u>	<u>66,098</u>	<u>1,099,258</u>	<u>(607,246)</u>	<u>541,757</u>	<u>(368,562)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchases of property and equipment	-	-	-	-	(16,800)	-	-	(16,800)
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,800)</u>	<u>-</u>	<u>-</u>	<u>(16,800)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from loan payable	1,150,000	-	-	-	-	-	-	1,150,000
Payment on loan payable	(500,000)	-	-	-	-	-	-	(500,000)
Net cash provided by (used in) investing activities	<u>650,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>650,000</u>
Increase (decrease) in cash and cash equivalents	(1,794,391)	239,159	736,803	66,098	1,082,458	(607,246)	541,757	264,638
Cash and cash equivalents, beginning of year	792,350	-	93,389	17,033	43,244	9,815	129,331	1,085,157
Cash and cash equivalents, end of year	<u>\$ (1,002,041)</u>	<u>\$ 239,159</u>	<u>\$ 830,192</u>	<u>\$ 83,131</u>	<u>\$ 1,125,702</u>	<u>\$ (597,431)</u>	<u>\$ 671,088</u>	<u>\$ 1,349,795</u>

See Independent Auditors' Report on Supplementary Information.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF COMPENSATION, BENEFITS AND
OTHER PAYMENTS TO THE CHIEF EXECUTIVE OFFICER
FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE V

Chief Executive Officer Name: Mr. Jay Altman

<u>Purpose</u>	<u>Amount</u>
Salary	\$157,660
Benefits – insurance	6,641
Benefits – retirement	9,460
Car allowance	-0-
Vehicle provided by government	-0-
Per diem	-0-
Reimbursements	597
Travel	-0-
Registration fees	-0-
Conference travel	-0-
Continuing professional education fees	-0-
License fees	-0-
Unvouchered expenses	-0-
Special meals	-0-

See Independent Auditors' Report on Supplementary Information.

Member

American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA
Joseph A. Akanji, CPA

INDEPENDENT AUDITORS' 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 of
FirstLine Schools, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **FirstLine Schools, Inc. (FirstLine)** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **FirstLine's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **FirstLine's** internal control. Accordingly, we do not express an opinion on the effectiveness of **FirstLine's** internal control.

INDEPENDENT AUDITORS' 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
(CONTINUED)

Internal Control Over Financial Reporting, Continued

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **FirstLine's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

INDEPENDENT AUDITORS' 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
(CONTINUED)

Response to Findings

FirstLine's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **FirstLine's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **FirstLine's** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **FirstLine's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

April 15, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
FirstLine Schools, Inc.
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited the compliance of **FirstLine Schools, Inc. (FirstLine)** with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **FirstLine's** major federal programs for the year ended June 30, 2018. **FirstLine's** major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **FirstLine's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **FirstLine's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **FirstLine's** compliance.

Opinion on Each Major Federal Program

In our opinion, **FirstLine** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control Over Compliance

Management of **FirstLine** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **FirstLine's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **FirstLine's** internal control over compliance.

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control Over Compliance, Continued

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

April 15, 2019

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

- A. Type of report issued on the financial statements: **Unmodified.**
- B. Did the audit disclose any material weaknesses in internal control over financial reporting? **No.**
- C. Did the audit disclose any significant deficiencies in internal control over financial reporting that are not considered to be material weaknesses? **Yes.**
- D. Did the audit disclose any non-compliance which is material to the financial statements? **No.**
- E. Did the audit disclose any material weaknesses in internal control over major federal programs? **No.**
- F. Did the audit disclose any significant deficiencies in internal control over major programs that are not considered to be material weaknesses? **None Reported.**
- G. Type of report issued on compliance for major programs: **Unmodified.**
- H. Did the audit disclose any audit findings required to be reported in accordance with Section 200.516(a) of the Uniform Guidance? **No.**
- I. Was a management letter issued? **No.**

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS, CONTINUED

J. Major programs:

U.S. Department of Education:

Title I - CFDA No. 10.010

U. S. Department of Agriculture:

Child Nutrition Cluster - CFDA No. 10.555
CFDA No. 10.559

U.S. Department of Education:

21st Century Grant - CFDA No. 84.287

K. Dollar threshold used to distinguish between Type A and Type B programs:
\$750,000.

L. Auditee qualified as a low-risk auditee: **No.**

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

Section II - FINANCIAL STATEMENT FINDINGS

Audit Finding Reference Number

2018-001 **Financial Close-Out and Reporting Process/Submission of Audit Report**

Finding Classification

Significant deficiency

Finding Type

Late filing of report with LLA.

Finding Title

Financial close-out and reporting process/submission of audit report

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

Two (2) – 2017 and 2018

Financial Impact of Finding

Less than \$150,000

Resolution is With or Without Cause

With cause

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2018-001 Financial Close-Out and Reporting Process/Submission of Audit Report, Continued

Criteria

Management of **FirstLine** is responsible for designing, implementing and maintaining proper and relevant control processes to ensure accuracy and completeness in financial reporting, preparation and fair presentations of disclosures.

LSA-RS 24:513 (A)(5)(I) requires audit reports to be completed and submitted to the State of Louisiana Legislative Auditor within six (6) months after year end, unless the Louisiana Legislative Auditor Audit Advisory Council approves an extension request of time for submission.

Condition

We noted during our audit that **FirstLine's** 2018 fiscal year-end financial close-out and reporting process was not timely completed until March 2019. **FirstLine's** June 30, 2018 financial statements were prepared and finalized nearly nine (9) months after the fiscal year-end.

In addition, the June 30, 2018 audited financial statements were not submitted to the Legislative Auditor by the statutory due date of December 31, 2018.

Cause

This condition was caused by vacancies and hiring of a new Chief Financial Officer, Controller and Grants Manager, along with implementing a new chart of accounts during the 2018 fiscal year.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2018

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

**2018-001 Financial Close-Out and Reporting Process/Submission of Audit Report,
Continued**

Effect

Financial information was not timely and accurately captured for the preparation of the June 30, 2018 financial statements and communicated to management and the Board of Directors for their use. Also, failure to timely submit the required audit report to the Legislative Auditor after the six (6) months' timeframe for any reason other than for a natural disaster is a violation of the State audit completion and submission law, and therefore subject to penalty.

Recommendation

We recommend that management establish a well-defined financial close-out and reporting process. The process and its key attributes (e.g. overall timing, format and frequency of analyses) should be formally documented, approved and reviewed on a regular basis.

Management's Response

Management, along with the Audit and Finance Committee, have reviewed and appropriately revised the current financial reporting procedures to ensure timely completion of audit engagements. **FirstLine** will note that there were extenuating circumstances that delayed the completion of the report, including the vacancies and hiring of a new Chief Financial Officer, Controller and Grants Manager, along with implementing a new chart of accounts during the 2018 fiscal year. This has resulted in additional time needed for the preparation of audit work, and completing the report. Management has also worked to implement procedures to ensure accuracy and reliability of financial statements through the monthly close and reconciliation process, along with updating policies to ensure adequate internal controls. **FirstLine** has created closing and audit timelines that will assist with the timely completion of future audit reports.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO THE FINANCIAL STATEMENTS

2017-001 Financial Close-Out and Reporting Process/Submission of Audit Report

We recommended that management establish a well-defined financial close-out and reporting process. The process and its key attributes (e.g. overall timing, format and frequency of analyses) should be formally documented, approved and reviewed on a regular basis. No matters reported.

Current Status

Unresolved. See current year finding 2018-001.

2017-002 Documented Reviews and Approvals

We recommended that **FirstLine** establish internal controls that require documented supervisory reviews and approvals of employees' time reporting, bank reconciliations, bank statements prior to bank reconciliations and credit card statements and related supporting documentation of credit card charges on an ongoing basis.

Current Status

Resolved.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO THE FINANCIAL STATEMENTS

2017-003 Requisition and/or Purchase Order System

We recommended that management establish a well-defined financial close-out and reporting process. The process and its key attributes (e.g. overall timing, format and frequency of analyses) should be formally documented, approved and reviewed on a regular basis.

Current Status

Resolved.

2017-004 Unrestricted Net Asset Deficit – Network Activity

We recommended that management establish a well-defined financial close-out and reporting process. The process and its key attributes (e.g. overall timing, format and frequency of analyses) should be formally documented, approved and reviewed on a regular basis.

Current Status

Resolved.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO THE FINANCIAL STATEMENTS

2017-005 Credit Card Charges

We recommended that **FirstLine** intensify efforts to ensure that credit card charges are always supported with source documentation (i.e., invoice or itemized receipt) and that each credit card charge is documented with the business purpose.

Current Status

Resolved.

SECTION II - INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO FEDERAL AWARDS

No matters reported.

SECTION III - MANAGEMENT LETTER

No matters reported.

FIRSTLINE SCHOOLS, INC.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES**

FOR THE YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
AGREED-UPON PROCEDURES REPORT	1
SCHEDULES REQUIRED BY STATE LAW (R.S. 24:514-PERFORMANCE AND STATISTICAL DATA):	6
Schedule 1 - General Fund Instructional and Support Expenditures and Certain Local Revenue Sources	7
Schedule 2 - Class Size Characteristics (Formerly Schedule 6).....	8



Member

American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA
Joseph A. Akanji, CPA

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors of
FirstLine Schools, Inc.,
the Louisiana Department of Education,
and the Louisiana Legislative Auditor

We have performed the procedures included in the *Louisiana Governmental Audit Guide* and enumerated below, which were agreed to by management of **FirstLine Schools, Inc. (FirstLine)**, the Louisiana Department of Education and the Louisiana Legislative Auditor (the specified parties), on the performance and statistical data accompanying the annual financial statements of **FirstLine** for the fiscal year ended June 30, 2018, and to determine whether the specified schedules are free of obvious errors and omissions as provided by the Board of Elementary and Secondary Education in compliance with Louisiana Revised Statute 24:514 I. Management of **FirstLine** is responsible for its performance and statistical data. The sufficiency of these procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures described on pages 3 to 5 either for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the United States Comptroller General. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the performance and statistical data. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES**

(CONTINUED)

The purpose of this report is solely to describe the scope of testing performed on the performance and statistical data accompanying the annual financial statements of **FirstLine**, as required by Louisiana Revised Statute 24:514 I, and the results of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

April 15, 2019

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES**

(CONTINUED)

PROCEDURES AND FINDINGS

Our procedures and associated findings are as follows:

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

1. We selected a sample of 25 transactions, reviewed supporting documentation and observed that the sampled expenditures/revenues are classified correctly and are reported in the proper amounts among the following amounts reported on the schedule:
 - Total General Fund Instructional Expenditures,
 - Total General Fund Equipment Expenditures,
 - Total Local Taxation Revenue,
 - Total Local Earnings on Investment in Real Property,
 - Total State Revenue in Lieu of Taxes,
 - Nonpublic Textbook Revenue, and
 - Nonpublic Transportation Revenue.

No differences noted

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES**

(CONTINUED)

PROCEDURES AND FINDINGS, CONTINUED

Class Size Characteristics (SCHEDULE 2, formerly SCHEDULE 6)

2. We obtained a list of classes by school, school type and class size as reported on the schedule. We then traced a sample of 10 classes to the October 1, 2017 roll books for those classes and observed that the class was properly classified on the schedule.

No differences noted.

Education Levels/Experience of Public School Staff (No Schedule)

3. We obtained the October 1st PEP data submitted to the Department of Education, including full-time teachers, principals, and assistant principals by classification, as well as their level of education and experience, and obtained management's representation that the data is complete. We then selected a sample of 25 individuals, traced to each individual's personnel file, and observed that each individual's education level and experience was properly classified on the PEP data.

*We noted that **FirstLine** had inaccurately reported the years of experience of four (4) of the twenty-five (25) individuals tested. No differences noted for tested education levels.*

Management Response

Management has instituted a practice of asking the employee to state their years of experience and have added a dual review of newly hired employees resumes by the human resources staff to confirm the employee years of experience. Additionally, **FirstLine** is in the process of implementing a Human Resources Information System to serve as the official employee database, which will include educational level, experience, all demographic data, as well as salary information, and any extra compensation. While undergoing this implementation, all staff will have to review their current information to ensure accuracy and completeness of information being reported in State reports.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING AGREED-UPON PROCEDURES**

(CONTINUED)

PROCEDURES AND FINDINGS, CONTINUED

Public School Staff Data: Average Salaries (No Schedule)

4. We obtained the June 30th PEP data submitted to the Department of Education of all classroom teachers, including base salary, extra compensation, and ROTC or rehired retiree status, as well as full-time equivalents, and obtain management's representation that the data is complete. We then selected a sample of 25 individuals, traced to each individual's personnel file, and observed that each individual's salary, extra compensation, and full-time equivalents were properly included on the PEP data.

We noted that two (2) of the twenty-five (25) individuals selected to observe that each individual's salary, extra compensation, and full-time equivalents were not properly included on the PEP data.

Management Response

FirstLine is in the process of implementing a Human Resources Information System to serve as the official employee database, which will include salary information, any extra compensation, educational level, experience and all demographic data. While undergoing this implementation, all staff will have to review their current information to ensure accuracy and completeness of information being reported in State reports.

FIRSTLINE SCHOOLS, INC.
SCHEDULES REQUIRED BY STATE LAW (R.S. 24:514 -
PERFORMANCE AND STATISTICAL DATA)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

SCHEDULE 1 - General Fund Instructional and Support Expenditures and Certain Local Revenue Sources

This schedule includes general fund instructional and equipment expenditures. It also contains local taxation revenue, earnings on investments, revenue in lieu of taxes, and nonpublic textbook and transportation revenue. This data is used either in the Minimum, Foundation Program (MFP) formula or is presented annually in the MFP 70% Expenditure Requirement Report.

SCHEDULE 2 - Class Size Characteristics (formerly SCHEDULE 6)

This schedule includes the percent and number of classes with student enrollment in the following ranges: 1-20; 21-26, 27-33, and 34+ students.

FIRSTLINE SCHOOLS, INC.
General Fund Instructional and Support Expenditures
and Certain Local Revenue Sources
For the Year Ended June 30, 2018

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures:

Teacher and Student Interaction Activities:

Classroom Teacher Salaries	\$12,592,465	
Other Instructional Staff Activities	2,718,775	
Employee Benefits	3,148,615	
Purchased Professional and Technical Services	2,173,292	
Instructional Materials and Supplies	1,239,596	
Instructional Equipment	-	
Total Teacher and Student Interaction Activities	<u>21,872,743</u>	

Other Instructional Activities

Pupil Support Activities

Less: Equipment for Pupil Support Activities	-	
Net Pupil Support Activities	<u>2,334,730</u>	

Instructional Staff Services

Less: Equipment for Instructional Staff Services	-	
Net Instructional Staff Services	<u>2,107,538</u>	

School Administration

Less: Equipment for School Administration	-	
Net School Administration	<u>3,605,677</u>	

Total General Fund Instructional Expenditures \$ 29,920,688

Total General Fund Equipment Expenditures \$ -

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 Other than School Taxes	-
Sales and Use Taxes	-
Total Local Taxation Revenue	<u>\$ -</u>

Local Earnings on Investment in Real Property:

Earnings from 16th Section Property	\$ -
Earnings from Other Real Property	-
Total Local Earnings on Investment in Real Property	<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>

Nonpublic Textbook Revenue \$ -

Nonpublic Transportation Revenue \$ -

See accompanying independent accountants' report on applying agreed-upon procedures.

FIRSTLINE SCHOOLS, INC.
Class Size Characteristics
As of October 1, 2017

School Type	Class Size Range							
	1 - 20		21 - 26		27 - 33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Elementary	12.5%	76	14.9%	91	70.2%	428	2.4%	15
Elementary Activity Classes	1.5%	1	12.5%	8	84.5%	54	1.0%	1
Middle/Jr. High	0.0%	0	0.0%	0	0.0%	0	50.0%	0
Middle/Jr. High Activity Classes	0.0%	0	0.0%	0	0.0%	0	0.0%	0
High	97.0%	65	3.0%	2	0.0%	0	0.0%	0
High Activity Classes	100.0%	6	0.0%	0	0.0%	0	0.0%	0
Combination	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Combination Activity Classes	0.0%	0	0.0%	0	0.0%	0	0.0%	0

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.

FIRSTLINE SCHOOLS, INC.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2018



Member
American Institute of
Certified Public Accountants
Society of Louisiana
Certified Public Accountants

Alcide J. Tervalon, Jr., CPA
Waldo J. Moret, Jr., CPA
Paul K. Andoh, Sr., CPA
Joseph A. Akanji, CPA

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES**

To the Board of Directors of **FirstLine Schools Inc.**
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by **FirstLine Schools Inc. (FirstLine)** and the Louisiana Legislative Auditor (LLA) on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2017 through June 30, 2018. **FirstLine's** management is responsible for those control and compliance areas identified in the SAUPs.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. 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.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)**

PROCEDURES AND FINDINGS

The procedures and findings related to the Statewide Agreed-Upon Procedures are as follows:

Written Policies and Procedures

1. We obtained **FirstLine's** written policies and procedures and observed that they address each of the following categories and subcategories (if applicable to public funds and **FirstLine's** operations):

a) Budgeting, including preparing, adopting, monitoring, and amending the budget.

FirstLine's written budgeting policies and procedures do not address the process for amending the budget.

Management's Response

FirstLine Charter School Network (FLS) has updated its policies to include a procedure for budget amendments requiring approval from the Board of Directors through its Finance Committee as of November 2018.

b) Purchasing, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

No exceptions were noted.

c) Disbursements, including processing, reviewing, and approving.

No exceptions were noted.

d) Receipts, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cut-off procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

FirstLine's written receipts policies and procedures do not address management actions to determine the completeness of all collections for each type of revenue.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

Management's Response

Management will update cash collections policy to address completeness of deposits and the collection of all revenue sources.

- e) Payroll/Personnel, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

No exceptions were noted.

- f) Contracting, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

FirstLine's contracting policy does not address (1) types of services requiring written contracts and (2) legal review.

Management's Response

Management will update the policy to include types of services requiring written contracts. FirstLine does not have a Legal –Department; however, as of July 2018, FirstLine has contracted with Legal Counsel who reviews all contracts. FirstLine will update its policies to reflect this process.

- g) Credit Cards, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage.

No exceptions were noted.

- h) Travel and expense reimbursement, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

No exceptions were noted.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

- i) Ethics, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

FirstLine does not have a formal ethics policy.

Management's Response

FirstLine does not have a formal ethics policy. However, all employees take the State of Louisiana's annual ethics training, sign a code of conduct in conjunction with our employee handbook policies and will implement an ethics policy in the future.

- j) Debt Service, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Debt requirements are not applicable to nonprofits.

Board (or Finance Committee, if applicable)

2. We obtained and inspected the Board/Finance Committee minutes for the fiscal period, as well as the Board's enabling legislation, charter, bylaws or equivalent document in effect during the fiscal period and:

- a) Observed that the Board/Finance Committee met with a quorum at least monthly, or on a frequency in accordance with the Board's enabling legislation, charter, bylaws or other equivalent document.

No exceptions were noted.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

- b) For those entities reporting on the governmental accounting model, observed that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. Alternately, for those entities reporting on the non-profit accounting model, observed that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.

No exceptions were noted.

- c) For governmental entities, obtained the prior year audit report and observed the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observed that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

This procedure is not applicable.

Bank Reconciliations

3. We obtained a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. We asked management to identify **FirstLine's** main operating account. We selected **FirstLine's** main operating account and randomly selected four (4) additional accounts. We randomly selected one (1) month from the fiscal period, obtained and inspected the corresponding bank statement and reconciliation for each account, and observed that:

- a) Bank reconciliations include evidence that they were prepared within two (2) months of the related statement closing date (e.g., initialed and dated, electronically logged);

We noted one (1) of five (5) bank reconciliations was not prepared within two (2) months of the related statement closing date.

Management's Response

Management is implementing monthly close procedures, which include timely reconciliation of bank accounts.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged);

We noted all bank reconciliations were reviewed by the Controller whom post ledgers.

Management's Response

Bank reconciliations are being reviewed and signed by either the Controller or Chief Financial Officer. Management has corrected this process. Management will have the Finance Committee /Treasurer review the bank reconciliations as part of each meeting.

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

We noted the bank reconciliations for the FLS Operating account had twenty-three (23) reconciling items older than twelve (12) months; however, there was no documentation reflecting management researched these items.

Management's Response

Management has researched all outstanding checks and has voided or reissued any applicable checks. There is evidence that the outstanding issues have been researched and resolved.

Cash Collections

4. We obtained a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete.

No exceptions were noted.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

5. For **FirstLine's** only deposit site, we obtained a listing of collection locations and management's representation that the listing is complete. We randomly selected one (1) location for the deposit site, obtained and inspected the written policies and procedures relating to employee job duties at the collection location, and observed that job duties are properly segregated at each collection location such that:

a) Employees that are responsible for cash collections do not share cash drawers/registers.

No exceptions were noted.

b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

No exceptions were noted.

c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

No exceptions were noted.

d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

No exceptions were noted.

6. We inquired of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

No exceptions were noted.

7. We randomly selected two (2) deposit dates for each of the four (4) of the five (5) bank accounts with deposits selected for procedure #3 under "Bank Reconciliations" above. We then obtained supporting documentation for each of the eight (8) deposits and:

a) Observed that receipts are sequentially pre-numbered.

We noted five (5) of eight (8) deposits did not have sequentially pre-numbered receipts.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)**

Management's Response

Management will ensure that staff uses only the pre-numbered receipts in the future.

- b) Traced sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

We were not able to trace collection documentation to the deposit slip for two (2) of eight (8) deposits because no support was provided.

Management's Response

Management has implemented procedures for preparing deposits that include affixing copies of all pertinent information and documentation to the finance department's deposits files.

Additionally, the bank account in reference is represented by a fiscal agent relationship with FirstLine, where the organization is also a co-signer on the account and makes deposits. This fiscal agent relationship ended in FY19.

- c) Traced the deposit slip total to the actual deposit per the bank statement.

We noted three (3) of eight (8) deposit slips could not be traced to the bank statement. For two (2) of the three (3) no supporting documentation was provided. For one (1) of the three (3), the deposit was \$1 less than the deposit slip and supporting documentation.

Management's Response

Management is working to correct this process. As of June 2018, FirstLine has started using electronic deposits with the use of a check scanner for all checks and currently revising procedures around cash collections to streamline the current process. Files are stored electronically as back up documentation of the deposit created.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)**

- d) Observed that the deposit was made within one (1) business day of receipt at the collection location (within one week if the depository is more than ten (10) miles from the collection location or the deposit is less than \$100).

We noted six (6) of the eight (8) deposits were made more than one (1) business day after receipt. Also, we were not able to determine the timeliness for two (2) of the eight (8) deposits because the supporting documentation was not provided.

Management's Response

Management is working to correct this process. As of June 2018, FirstLine has started using electronic deposits with the use of a check scanner for all checks and currently revising procedures around cash collections to streamline the current process. Files are stored electronically as back up documentation of the deposit created.

- e) Trace the actual deposit per the bank statement to the general ledger.

No exceptions were noted.

Non-Payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. We obtained a listing of locations that process payments for the fiscal period and management's representation that the listing is complete.

No exceptions were noted.

9. For each location identified under #8 above, we obtained a listing of those employees involved with non-payroll purchasing and payment functions. We obtained written policies and procedures relating to employee job duties, and observed that job duties are properly segregated such that:

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

No exceptions were noted.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

- b) At least two employees are involved in processing and approving payments to vendors.

No exceptions were noted.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

No exceptions were noted.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

No exceptions were noted.

10. For each location selected under #8 above, we obtained the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtained management's representation that the population is complete. We randomly selected five (5) disbursements for each location, obtained supporting documentation for each transaction and:

- a) Observed that the disbursement matched the related original invoice/billing statement.

We noted five (5) of sixteen (16) disbursements did not match the original invoice/billing statement.

Management's Response

Management will ensure that all purchases will have proof of any revised invoices and that the documentation is attached to the payment.

- b) Observed that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

We noted no evidence of segregation of duties related to the initiating a purchase request and placing an order for eleven (11) of sixteen (16) disbursements. We noted no evidence of segregation of duties related to the processing and approving payments to vendors in ten (10) of sixteen (16) disbursements. We noted the employee responsible for signing checks give the checks to the employee responsible for processing payments in all sixteen (16) disbursements selected.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

Management's Response

Management will ensure that all purchases are approved prior to processing the request and those purchases are properly received in the purchasing system or received with a valid signature acknowledging receipt.

Credit Cards

11. We obtained from management a listing of all active credit cards for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards, and we obtained management's representation that the listing is complete.

No exceptions were noted.

12. Using the listing prepared by management, we randomly selected five (5) of the eleven (11) cards that were used during the fiscal period and obtained the monthly statements or combined statement for each card. We randomly selected the monthly statement or combined statement for each card, obtained supporting documentation and:
- a) Observed that there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.

No exceptions were noted.

- b) Observed that finance charges and/or late fees were not assessed on the selected statements.

We noted there were finance charges and/or late fees assessed on three (3) of the five (5) monthly statements reviewed.

Management's Response

Management is paying credit card statement balances in a timely fashion and following up with staff regarding any outstanding back up that may have led to late payment.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

13. Using the monthly statements or combined statements selected under #12 above, we randomly selected ten (10) transactions from each statement, and obtained supporting documentation for the transactions. For each transaction, we observed that it is supported by:

- a) An original itemized receipt that identifies precisely what was purchased.

No exceptions were noted.

- b) Written documentation of the business/public purpose.

No exceptions noted.

- c) Documentation of the individuals participating in meals (for meal charges only).

No exceptions were noted.

Travel and Expense Reimbursement

14. We obtained from management a listing of all travel and travel related reimbursements during the fiscal period and management's representation that the listing is complete. We randomly selected five (5) reimbursements, obtained the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the five (5) reimbursements selected:

- a) If reimbursed using a per diem, we agreed the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

FirstLine did not provide the supporting documentation for one (1) of the five (5) items selected for testing.

Management's Response

Management currently requires documentation for all expense reimbursements. We considered the back-up submitted as sufficient for the reimbursement; however Management will now require staff to keep itemized receipts.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

- b) If reimbursed using actual costs, we observed that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

We were not able to determine the reimbursement was supported by an original itemized receipt for one (1) of the five (5) reimbursements because the supporting documentation was not provided.

Management's Response

Management will ensure that pre-authorization forms are obtained and approved to ensure business purpose prior to any travel or reimbursements are processed in accordance with our policy.

- c) We observed that each reimbursement is supported by documentation of the business/public purpose (for meal charges, we observed that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

No exceptions noted.

- d) We observed that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

No exceptions notes.

Contracts

15. We obtained from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. We obtained management's representation that the listing is complete. We randomly selected five (5) contracts from the listing, and:

- a) We observed that the contract was bid in accordance with the Louisiana Public Bid Law, if required by law.

None of the contracts reviewed were subject to Louisiana Public Bid Law, therefore this procedure is not applicable.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

- b) We observed that the contract was approved by the governing body/board, if required by policy or law.

None of the contracts reviewed were required by policy or law to be approved by the governing board, therefore this procedure is not applicable.

- c) If the contract was amended (e.g. change order), we observed that the original contract terms provided for such an amendment.

None of the contracts reviewed were amended, therefore this procedure is not applicable.

- d) We randomly selected one (1) payment from the fiscal period for each of the five (5) contracts, obtained the supporting invoice, agreed the invoice to the contract terms, and observed that the invoice and related payment agreed to the terms and conditions of the contract.

No exceptions were noted.

Payroll and Personnel

16. We obtained a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. We randomly selected five (5) employees/officials, obtained related paid salaries and personnel files, and agreed paid salaries to authorized salaries/pay rates in the personnel files.

No exceptions were noted.

17. We randomly selected one (1) pay period during the fiscal period. For the five (5) employees/officials selected under #16 above, obtained attendance records and leave documentation for the pay period, and:

- a) We observed that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

No exceptions were noted.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

- b) We observed that supervisors approved the attendance and leave of the selected employees/officials.

We noted two (2) of five (5) employees' attendance and leave was not approved by the supervisor.

Management's Response

Management is currently implementing a time and attendance system that will allow for electronic approval of attendance and leave. However since June of 2018 all time and attendance records are being maintained in payroll and supervisors are certifying their employees' time prior to each payroll.

- c) We observed that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

No exceptions were noted.

18. We obtained a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. We randomly selected two (2) employees/officials, obtained related documentation of the hours and pay rates used in management's termination payment calculations, agreed the hours to the employee/officials' cumulative leave records, and agreed the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

No exceptions were noted.

19. We obtained management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

No exceptions were noted.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)**

Ethics

20. Using five (5) randomly selected employees, we obtained ethics documentation from management and:

- a) Observed that the documentation demonstrates each employee/official completed one (1) hour of ethics training during the fiscal period.

We noted none of the employees had completed the ethics training during the fiscal period.

Management's Response

All new employees complete the State of Louisiana ethics training. As of January 2019, all staff is now completing the annual ethics training.

- b) Observed that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's policy during the fiscal period.

We noted none of the employees had attested through signature verification that he or she had read the entity's policy during the fiscal period.

Management's Response

The board is implementing a formal ethics policy that will be approved in the upcoming months. All employees will be required to certify that they have received and read the new policy. All new employees will be required to do this as a formal part of their on-boarding process.

**INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)**

Debt Service

21. We obtained a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. We selected all bonds/notes on the listing, obtained supporting documentation, and observed that State Bond Commission approval was obtained for each bond/note issued.

This procedure is not applicable to nonprofits.

22. We obtained a list of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. We randomly selected one (1) bond/note, inspected debt covenants, obtained supporting documentation for the reserve balance and payments, and agreed actual reserve balances and payments to those required by debt covenants.

This procedure is not applicable to nonprofits.

Other

23. We obtained a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. We selected all misappropriations on the listing, obtained supporting documentation, and observed that **FirstLine** reported the misappropriations to the Louisiana Legislative Auditor and the District Attorney of Orleans Parish.

No misappropriations of public funds or assets were reported during the period.

24. We observed that **FirstLine** has posted on its premises and website the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

No exceptions were noted.

INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING STATEWIDE AGREED-UPON PROCEDURES
(CONTINUED)

We were not engaged to and did not perform an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those control and compliance areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those control and compliance areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

April 15, 2019