

FIRSTLINE SCHOOLS, INC.
FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2019

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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, 2019, and the related statements of activities, functional expenses 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 on the previous page present fairly, in all material respects, the financial position of **FirstLine** as of June 30, 2019, 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 March 3, 2020 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

March 3, 2020

FIRSTLINE SCHOOLS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Cash and cash equivalents (NOTES 1, 4 and 9)	\$ 1,376,256
Cash held on behalf for others	764,214
Grants receivable (NOTE 8)	2,721,775
Other receivables	672,606
Bus deposit receivables	528,134
Prepaid expenses	18,989
Property and equipment, net (NOTES 1 and 2)	<u>808,683</u>
 Total assets	 <u><u>\$ 6,890,657</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 1,667,268
Accrued liabilities	1,256,342
Funds held on behalf of others	764,214
Loan payable	61,581
Notes payable (NOTE 13)	<u>1,450,000</u>
 Total liabilities	 <u>5,199,405</u>
 Net Assets:	
Without donor restrictions	<u>1,691,252</u>
 Total net assets	 <u>1,691,252</u>
 Total liabilities and net assets	 <u><u>\$ 6,890,657</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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>REVENUES</u>			
Local sources:			
Minimum Foundation Program	\$ 19,633,764	\$ -	\$ 19,633,764
Contributions	1,192,528	-	1,192,528
Contributions - in kind (NOTE 6)	31,944	-	31,944
Interest earnings	3,272	-	3,272
Charges for food services	2,761	-	2,761
Fundraising activities	149,882	-	149,882
Other	1,418,979	-	1,418,979
Total local sources	<u>22,433,130</u>	<u>-</u>	<u>22,433,130</u>
State sources:			
Minimum Foundation Program	14,189,472	-	14,189,472
Grants	322,218	-	322,218
Total state sources	<u>14,511,690</u>	<u>-</u>	<u>14,511,690</u>
Federal grants	<u>9,720,343</u>	<u>-</u>	<u>9,720,343</u>
Net assets released from restrictions (NOTE 7)	<u>1,655,284</u>	<u>(1,655,284)</u>	<u>-</u>
Total revenues	<u>48,320,447</u>	<u>(1,655,284)</u>	<u>46,665,163</u>
<u>EXPENSES</u>			
Instruction	27,296,060	-	27,296,060
Management and general	19,257,770	-	19,257,770
Total expenses	<u>46,553,830</u>	<u>-</u>	<u>46,553,830</u>
Changes in net assets	1,766,617	(1,655,284)	111,333
Net assets, beginning of year	<u>(75,365)</u>	<u>1,655,284</u>	<u>1,579,919</u>
Net assets, end of year	<u>\$ 1,691,252</u>	<u>\$ -</u>	<u>\$ 1,691,252</u>

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

FIRSTLINE SCHOOLS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

<u>EXPENSES (SCHEDULE IV)</u>	<u>Instructional</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 13,420,678	\$ 9,166,629	\$ 22,587,307
Employee health and retirement	1,829,892	1,275,128	3,105,020
Payroll taxes	1,000,540	674,850	1,675,390
Purchased professional and technical services	1,739,438	1,377,148	3,116,586
Purchased property services	7,586	2,408,463	2,416,049
Student transportation services	4,116,737	-	4,116,737
Insurance	-	704,755	704,755
Communications	-	248,537	248,537
Food service management	3,287,453	386,838	3,674,291
Other purchased services	197,783	447,907	645,690
Supplies	1,662,640	1,381,331	3,043,971
Depreciation	-	228,761	228,761
In-kind fundraising expense	-	31,944	31,944
Miscellaneous	33,313	925,479	958,792
	<u>\$ 27,296,060</u>	<u>\$ 19,257,770</u>	<u>\$ 46,553,830</u>

The accompanying notes are an intergral part of these financial statement.

FIRSTLINE SCHOOLS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	\$ 111,333
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation expense	228,761
Changes in assets and liabilities:	
Increase in prepaid expense	(18,989)
Increase in grants receivable	(231,255)
Decrease in other receivables	140,974
Increase in other assets	(32,825)
Decrease in accounts payable	(539,173)
Increase in accrued liabilities	370,604
Increase in funds held on behalf of others	759,135
Net cash provided by in operating activities	<u>788,565</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	<u>(59,477)</u>
Net cash used in investing activities	<u>(59,477)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from borrowings	979,581
Payment on note payable	<u>(918,000)</u>
Net cash provided by financing activities	<u>61,581</u>
 Increase in cash and cash equivalents	 790,669
Cash and cash equivalents, beginning of year	<u>1,349,801</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,140,470</u></u>
 Supplemental disclosure:	
Non cash items - in-kind contributions	<u><u>\$ 31,944</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, Langston Hughes Charter School (Hughes) beginning in the 2012-2013 school year and Live Oak Charter School (Live Oak) beginning in the 2018-2019 school year. The board of directors consists of individuals with experience in business and education that have an interest in public education.

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:

- 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;
- Providing a rich variety of experiences for its students to nurture character, health, and active citizenship; and
- Developing the skillfulness of its staff and building sustainable organizations that facilitate its long-term success.

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

General, Continued

Prior to **FirstLine's** 2016-2017 school year, its Board of Directors and the CEO decided not to request renewal of **FirstLine's** Charter Contract to operate Clark, which was scheduled to terminate on June 30, 2019. **FirstLine** had concerns about Clark's declining enrollment, which made it challenging to provide the services students needed, while also being financially sustainable. Additionally, Clark was struggling academically. Lastly, **FirstLine** knew there was a demand for a career high school in the City of New Orleans and **FirstLine's** CEO helped to launch a career tech high school program that served needs of all students as an alternative to the career tech curriculum offered at Clark. In cooperation with the RSD, **FirstLine** decided to phase out Clark's enrollment over the course of three years so that students currently enrolled in the school could graduate from the school if they chose to do so. Clark's enrollment phase out plan was accomplished by closing out 9th, 10th and 11th grades in the fall of 2016, 2017 and 2018, respectively, and the school was completely closed at June 30, 2019 after graduating its last senior class. At June 30, 2019, Clark reported a deficit in the net assets balance of \$602,385, which will be absorbed by the Network in the subsequent fiscal year.

In the 2018-2019 school year, Green, Ashe, Wheatley, Live Oak, Clark and Hughes served the following number of students:

Green	488
Ashe	839
Wheatley	796
Live Oak	422
Clark	43
Hughes	<u>764</u>
Total	<u>3,352</u>

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

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

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.

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.

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

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

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 of \$1,376,256 and cash held on behalf for others of \$764,214 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** 2018, 2017 and 2016 tax years are open for examination by the IRS.

Financial Statement Presentation

As of July 1, 2018, **FirstLine** has implemented the guidance under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which amends the previous standard for external financial reporting by not-for-profit organizations.

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

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

Financial Statement Presentation, Continued

Under ASU 2016-14, **FirstLine** classifies resources for financial accounting and reporting purposes into two net (2) asset categories: without donor restrictions and with donor restrictions. A description of the two (2) net asset categories is as follows:

- Net assets without donor restrictions include funds not subject to donor-imposed stipulations. Grants and contributions without donor restrictions, other income and expenses incurred in conducting the mission of **FirstLine** are included in this category.
- Net assets with donor restrictions include grants and contributions for which donor-imposed time and/or purpose restrictions have not been met.

At June 30, 2019, **FirstLine** had no net assets with donor restrictions.

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, 2019.

Contributions

Contributions are recorded as unrestricted, or restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted support is recognized as an increase in net assets with donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction are reclassified to net assets without donor restriction and reported in the consolidated statement of activities as net assets released from restrictions. Contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions.

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

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

Minimum Foundation Program (MFP)

As Type 5 charter schools, Ashe, Green, Wheatley, Live Oak, Clark and Hughes received funding from BESE passed through NOLA Public Schools 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 reported on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and support (management and general) services benefitted.

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. Vacation days do not accrue.

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.

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

NOTE 2 - PROPERTY AND EQUIPMENT:

The following is a summary of property and equipment at June 30, 2019:

Land	\$ 181,485
Building improvements	2,331,737
Equipment	<u>2,260,209</u>
Total property and equipment	4,773,431
Less: accumulated depreciation	<u>(3,964,748)</u>
Net property and equipment	<u>\$ 808,683</u>

For the year ended June 30, 2019, depreciation expense was \$228,761.

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, 2019 were \$2,455,862.

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

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 NOLA Public Schools for Ashe, Green, Clark, Live Oak 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 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.

FirstLine held fundraising galas during the June 30, 2019 fiscal year, in which donations in the form of food, auction items and other fundraising materials were received. The total fair value of these donations at the date of the gifts was \$31,944. The donated materials were recorded at fair value in the financial statements as contributions - in-kind revenue and in-kind fundraising expense.

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

NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS:

For the year ended June 30, 2019, net assets were released from donor restrictions in the amount of \$1,655,284 by incurring expenses satisfying the restricted purposes specified by donors for the Edible School Yard Program.

NOTE 8 - GRANTS RECEIVABLE:

At June 30, 2019, grants receivable consisted of the following sources:

Federal	\$ 2,446,626
State	83,568
Local	<u>191,581</u>
Total	<u>\$2,721,775</u>

NOTE 9 - AVAILABILITY AND LIQUIDITY:

At June 30, 2019, **FirstLine** has financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of the following:

Cash and cash equivalents	\$2,116,057
Grants receivable	2,721,775
Other receivables	<u>672,606</u>
Total	<u>\$5,510,438</u>

None of the financial assets above are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. **FirstLine's** objective is to maintain liquid financial assets without donor restrictions sufficient to cover 60 days of operating expenses. **FirstLine** regularly monitors liquidity required to meet its operating needs and other contractual commitments. Expenditures are generally met within 30 days, utilizing the financial resources of **FirstLine**. In addition, **FirstLine** operates with a budget and monitors sources and uses of funds throughout the year by comparing budget to actual operating expenses.

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, 2019.

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, 2019.

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 lease shall commence on the effective date and shall remain effective for seven (7) years, unless terminated in accordance with the term of the master lease agreement or charter school contract.

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

Years Ending <u>June 30:</u>	<u>Amount</u>
2020	\$ 347,448
2021	352,660
2022	<u>357,950</u>
Total	<u>\$1,058,058</u>

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

NOTE 13 - NOTES PAYABLE:

A private foundation has provided an unsecured, interest-free loans for financing, as necessary, the operations of **FirstLine**. The loan balance at June 30, 2019 of \$532,000 is due in full at maturity in the 2020 fiscal year.

On August 17, 2018, a national nonprofit organization provided an unsecured loan to **FirstLine** totaling \$918,000, with an interest rate of one percent (1%) per annum (based on a 360-day year). The loan has a maturity date of June 27, 2028. However, the entire principal balance plus any unpaid interest is eligible for conversion to a grant during an eligibility period of December 15, 2019 to December 15, 2023, contingent upon **FirstLine** opening its sixth kindergarten through eighth grade school. Should the loan not be converted to a grant because **FirstLine** did not open its sixth kindergarten through eighth grade school within the eligibility period or **FirstLine** did not meet other loan forgiveness conditions, as determined by the lender, the total initial loan amount of \$918,000, plus all interest accruing through the maturity date, is due to the lender on June 27, 2018. As of June 30, 2019, accrued interest expense on this loan amounted to \$8,033.

NOTE 14 - NEW PRONOUNCEMENTS:

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.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 15 - 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 March 3, 2020, 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.

SUPPLEMENTARY INFORMATION

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE I
1 of 2

<u>Federal Grantor/Program Name</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<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>		
Special Education Cluster:		
IDEA, Part B	84.027	\$ 611,732
IDEA, Preschool	84.173	11,477
Total Special Education Cluster		623,209
IASA Title I, Part A	84.010	2,392,481
IASA Title II, Part A	84.367	261,426
IASA Title IV, Part A	84.298	176,042
IASA Title I, Direct Student Services	84.010	74,455
IDEA B- High Cost Services	84.282C	666,740
21st Century	84.287	482,952
Charter Schools Program	84.282A	63,500
Striving Readers Comprehensive Literacy	84.371	191,127
School Redesign Grant	84.xxx	108,038
Total U.S. Department of Education		5,039,970
<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:		
National School Lunch Program and Breakfast Program	10.555, 10.553	2,629,010
Summer Feeding	10.559	24,037
Total Child Nutrition Cluster		2,653,047
Food Service School Supper Program	10.558	1,303,211
Fresh Fruit and Vegetable Program	10.582	47,723
Department of Defense Commodity Credits	10.xxx	146,694
Total U.S. Department of Agriculture		4,150,675
<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 Needy Families	93.558	288,429
U.S. Department of Health and Human Services		\$ 288,429

See Independent Auditors' Report on Supplementary Information.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE I
2 of 2

Federal Grantor/Program Name	Federal CFDA Number	Federal Expenditures
<u>U.S Department of Homeland Security</u>		
<i><u>Awards from a Pass-Through Entity</u></i>		
<u>Passed-Through: Governor's Office of Homeland Security and Emergency Preparedness</u>		
FEMA Disaster Relief	97.036	\$ <u>241,269</u>
U.S Department of Homeland Security		<u>241,269</u>
Total Expenditures of Federal Awards		<u>\$ 9,720,343</u>

NOTE 1: 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, 2019 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.

NOTE 2: **FirstLine** did not elect to use the 10% de minimis indirect cost rate for the year ended June 30, 2019.

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2019

SCHEDULE II

	FirstLine Network Activity	Live Oak Charter School	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	\$ (1,879,539)	\$ (177,431)	\$ 1,467,160	\$ 72,297	\$ 1,652,137	\$ (683,527)	\$ 925,159	\$ -	\$ 1,376,256
Cash held on behalf for others	764,214	-	-	-	-	-	-	-	764,214
Grants receivable	82,022	290,198	448,916	250,355	519,739	62,426	1,068,119	-	2,721,775
Other receivables	551,003	-	-	-	-	120,079	1,524	-	672,606
Bus deposit receivables	454,951	46,067	1,800	20,399	4,917	-	-	-	528,134
Due from other programs	-	-	724,473	-	-	-	295,342	(1,019,815)	-
Prepaid expenses	18,989	-	-	-	-	-	-	-	18,989
Property and equipment, net	191,617	41,835	253,900	51,363	236,258	-	33,710	-	808,683
Total assets	\$ 183,257	\$ 200,669	\$ 2,896,249	\$ 394,414	\$ 2,413,051	\$ (501,022)	\$ 2,323,854	\$ (1,019,815)	\$ 6,890,657
LIABILITIES AND NET ASSETS									
Liabilities:									
Accounts payable	\$ 205,351	\$ 123,130	\$ 323,252	\$ 200,687	\$ 387,277	\$ 44,846	\$ 382,725	\$ -	\$ 1,667,268
Accrued liabilities	164,949	261,115	218,812	154,335	211,326	23,165	222,640	-	1,256,342
Funds held on behalf of others	764,214	-	-	-	-	-	-	-	764,214
Loan payable	-	47,789	-	13,792	-	-	-	-	61,581
Notes payable	1,450,000	-	-	-	-	-	-	-	1,450,000
Due to other programs	109,162	114,337	-	234,466	528,498	33,352	-	(1,019,815)	-
Total liabilities	2,693,676	546,371	542,064	603,280	1,127,101	101,363	605,365	(1,019,815)	5,199,405
Net Assets:									
Without donor restrictions	(2,510,419)	(345,702)	2,354,185	(208,866)	1,285,950	(602,385)	1,718,489	-	1,691,252
Total net assets	(2,510,419)	(345,702)	2,354,185	(208,866)	1,285,950	(602,385)	1,718,489	-	1,691,252
Total liabilities and net assets	\$ 183,257	\$ 200,669	\$ 2,896,249	\$ 394,414	\$ 2,413,051	\$ (501,022)	\$ 2,323,854	\$ (1,019,815)	\$ 6,890,657

See Independent Auditors' Report on Supplementary Information.

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE III

	<u>FirstLine Network Activity</u>	<u>Live Oak Charter School</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>Eliminations</u>	<u>Total</u>
REVENUES									
Local sources:									
Minimum Foundation Program	\$ -	\$ 2,390,024	\$ 4,750,559	\$ 2,764,030	\$ 5,153,155	\$ 245,034	\$ 4,330,962	\$ -	\$ 19,633,764
Management fee	3,127,961	-	-	-	-	-	-	(3,127,961)	-
Contributions	1,113,406	14,000	14,404	11,500	15,250	50	23,918	-	1,192,528
Contributions - in kind	31,944	-	-	-	-	-	-	-	31,944
Interest earnings	1,097	1,976	175	24	-	-	-	-	3,272
Charges for food services	-	-	873	218	128	-	1,542.00	-	2,761
Fundraising activities	149,882	-	-	-	-	-	-	-	149,882
Other	633,287	21,417	137,245	24,994	101,774	305,179	195,083	-	1,418,979
Total local sources	<u>5,057,577</u>	<u>2,427,417</u>	<u>4,903,256</u>	<u>2,800,766</u>	<u>5,270,307</u>	<u>550,263</u>	<u>4,551,505</u>	<u>(3,127,961)</u>	<u>22,433,130</u>
State sources:									
Minimum Foundation Program	-	1,927,645	3,322,327	2,168,424	3,278,489	366,010	3,126,577	-	14,189,472
Grants	15,486	72,811	15,633	48,797	86,647	1,814	81,030	-	322,218
Total state sources	<u>15,486</u>	<u>2,000,456</u>	<u>3,337,960</u>	<u>2,217,221</u>	<u>3,365,136</u>	<u>367,824</u>	<u>3,207,607</u>	<u>-</u>	<u>14,511,690</u>
Federal grants	<u>110,375</u>	<u>1,279,985</u>	<u>2,340,415</u>	<u>1,137,952</u>	<u>2,027,745</u>	<u>163,365</u>	<u>2,660,506</u>	<u>-</u>	<u>9,720,343</u>
Total revenues	<u>5,183,438</u>	<u>5,707,858</u>	<u>10,581,631</u>	<u>6,155,939</u>	<u>10,663,188</u>	<u>1,081,452</u>	<u>10,419,618</u>	<u>(3,127,961)</u>	<u>46,665,163</u>
EXPENSES									
Instruction	707,074	3,991,888	6,038,635	4,083,175	5,586,780	645,386	6,243,122	-	27,296,060
Management and general	5,472,792	2,266,453	3,778,735	2,153,267	4,390,728	690,844	3,632,912	(3,127,961)	19,257,770
Total expenses	<u>6,179,866</u>	<u>6,258,341</u>	<u>9,817,370</u>	<u>6,236,442</u>	<u>9,977,508</u>	<u>1,336,230</u>	<u>9,876,034</u>	<u>(3,127,961)</u>	<u>46,553,830</u>
Changes in net assets	(996,428)	(550,483)	764,261	(80,503)	685,680	(254,778)	543,584	-	111,333
Net assets, beginning 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>
Net assets, end of year	<u>\$ (2,510,419)</u>	<u>\$ (345,702)</u>	<u>\$ 2,354,185</u>	<u>\$ (208,866)</u>	<u>\$ 1,285,950</u>	<u>\$ (602,385)</u>	<u>\$ 1,718,489</u>	<u>\$ -</u>	<u>\$ 1,691,252</u>

See Independent Auditors' Report on Supplementary Information.

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE IV
1 of 3

<u>EXPENSES</u>	FirstLine Network Activity		Live Oak Charter School		Arthur Ashe Charter School	
	Instruction	Management and General	Instruction	Management and General	Instruction	Management and General
Salaries and wages	\$ 57,457	\$ 3,359,025	\$ 1,901,022	\$ 974,969	\$ 2,939,820	\$ 1,307,127
Employee health and retirement	5,679	544,931	248,554	121,189	434,019	160,148
Payroll taxes	6,148	262,037	141,695	66,456	217,268	95,438
Purchased professional and technical services	15,512	384,995	314,831	204,447	409,535	1,162,232
Purchased property services	-	208,809	-	349,023	-	272,676
Student transportation services	547,392	-	594,627	-	795,724	-
Insurance	-	36,944	-	82,541	-	171,585
Communications	-	37,010	-	25,341	-	43,625
Food service management	25,087	-	478,512	70,328	794,525	64,404
Other purchased services	19,868	187,783	12,368	46,300	42,690	50,706
Supplies	18,797	231,615	296,196	235,257	398,349	176,084
Depreciation	-	6,283	-	4,352	-	73,773
In-kind fundraising expense	-	31,944	-	-	-	-
Miscellaneous	11,134	181,416	4,083	86,250	6,705	200,937
Total expenses	<u>\$ 707,074</u>	<u>\$ 5,472,792</u>	<u>\$ 3,991,888</u>	<u>\$ 2,266,453</u>	<u>\$ 6,038,635</u>	<u>\$ 3,778,735</u>

See Independent Auditors' Report on Supplementary Information

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE IV
2 of 3

<u>EXPENSES</u>	Samuel J. Green Charter School		Phillis Wheatley Charter School		Joseph S. Clark Charter School	
	<u>Instruction</u>	<u>Management and General</u>	<u>Instruction</u>	<u>Management and General</u>	<u>Instruction</u>	<u>Management and General</u>
Salaries and wages	\$ 2,192,303	\$ 893,114	\$ 2,868,600	\$ 1,336,715	\$ 348,867	\$ 110,084
Employee health and retirement	305,602	111,832	375,390	172,180	52,188	13,617
Payroll taxes	163,324	64,345	215,212	92,001	26,060	8,302
Purchased professional and technical services	247,803	356,991	304,442	1,229,428	19,953	106,073
Purchased property services	825	201,431	2,358	762,087	675	258,928
Student transportation services	550,013	-	685,925	-	149,799	-
Insurance	-	95,852	-	150,980	-	14,390
Communications	-	33,630	-	39,020	-	19,704
Food service management	335,967	79,105	762,708	62,933	-	2,719
Other purchased services	13,772	48,285	45,278	60,037	28,677	9,749
Supplies	273,566	152,308	321,632	227,549	17,841	115,735
Depreciation	-	21,102	-	86,487	-	-
In-kind fundraising expense	-	-	-	-	-	-
Miscellaneous	-	95,272	5,235	171,311	1,326	31,543
Total expenses	<u>\$ 4,083,175</u>	<u>\$ 2,153,267</u>	<u>\$ 5,586,780</u>	<u>\$ 4,390,728</u>	<u>\$ 645,386</u>	<u>\$ 690,844</u>

See Independent Auditors' Report on Supplementary Information

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE IV
3 of 3

<u>EXPENSES</u>	Langston Hughes Academy Charter School		<u>Eliminations</u>	<u>Grand Total</u>	
	<u>Instruction</u>	<u>Management and General</u>		<u>Instruction</u>	<u>Management and General</u>
Salaries and wages	\$ 3,112,609	\$ 1,185,595	\$ -	\$ 13,420,678	\$ 9,166,629
Employee health and retirement	408,460	151,231	-	1,829,892	1,275,128
Payroll taxes	230,833	86,271	-	1,000,540	674,850
Purchased professional and technical services	427,362	1,060,943	(3,127,961)	1,739,438	1,377,148
Purchased property services	3,728	355,509	-	7,586	2,408,463
Student transportation services	793,257	-	-	4,116,737	-
Insurance	-	152,463	-	-	704,755
Communications	-	50,207	-	-	248,537
Food service management	890,654	107,349	-	3,287,453	386,838
Other purchased services	35,130	45,047	-	197,783	447,907
Supplies	336,259	242,783	-	1,662,640	1,381,331
Depreciation	-	36,764	-	-	228,761
In-kind fundraising expense	-	-	-	-	31,944
Miscellaneous	4,830	158,750	-	33,313	925,479
Total expenses	<u>\$ 6,243,122</u>	<u>\$ 3,632,912</u>	<u>\$ (3,127,961)</u>	<u>\$ 27,296,060</u>	<u>\$ 19,257,770</u>

See Independent Auditors' Report on Supplementary Information

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

SCHEDULE V

	<u>FirstLine Network Activity</u>	<u>Samuel J. Green Charter School</u>	<u>Arthur Ashe Charter School</u>	<u>Phillis Wheatley Charter School</u>	<u>Live Oak 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	\$ (996,428)	\$ (80,503)	\$ 764,261	\$ 685,680	\$ (550,483)	\$ (254,778)	\$ 543,584	\$ 111,333
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:								
Depreciation expense	6,283	21,102	73,773	86,487	4,352	-	36,764	228,761
Changes in assets and liabilities:								
Increase in prepaid expense	(18,989)	-	-	-	-	-	-	(18,989)
(Increase) decrease in grants receivable	400,865	121,547	(150,102)	(137,660)	(290,198)	388,989	(564,696)	(231,255)
(Increase) decrease in other receivables	244,708	520	3,976	7,495	-	(116,923)	1,198	140,974
(Increase) decrease in other assets	4,854	3,661	-	4,727	(46,067)	-	-	(32,825)
(Increase) decrease in due from other programs	-	-	63,249	-	-	-	380,460	443,709
Increase (decrease) in accounts payable	(78,244)	(178,922)	(111,815)	(56,350)	92,443	(72,211)	(134,074)	(539,173)
Increase (decrease) in accrued liabilities	160,481	(4,993)	(6,374)	(9,520)	259,824	(19,649)	(9,165)	370,604
Increase in funds held on behalf of others	759,135	-	-	-	-	-	-	759,135
Increase (decrease) in due to other programs	(595,949)	106,252	-	(54,425)	111,937	(11,524)	-	(443,709)
Net cash provided by (used in) operating activities	<u>(113,284)</u>	<u>(11,336)</u>	<u>636,968</u>	<u>526,434</u>	<u>(418,192)</u>	<u>(86,096)</u>	<u>254,071</u>	<u>788,565</u>
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchases of property and equipment	-	(13,290)	-	-	(46,187)	-	-	(59,477)
Net cash used in investing activities	<u>-</u>	<u>(13,290)</u>	<u>-</u>	<u>-</u>	<u>(46,187)</u>	<u>-</u>	<u>-</u>	<u>(59,477)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from borrowings	918,000	13,792	-	-	47,789	-	-	979,581
Payment on note payable	(918,000)	-	-	-	-	-	-	(918,000)
Net cash provided by financing activities	<u>-</u>	<u>13,792</u>	<u>-</u>	<u>-</u>	<u>47,789</u>	<u>-</u>	<u>-</u>	<u>61,581</u>
Increase (decrease) in cash and cash equivalents	(113,284)	(10,834)	636,968	526,434	(416,590)	(86,096)	254,071	790,669
Cash and cash equivalents, beginning of year	(1,002,041)	83,131	830,192	1,125,703	239,159	(597,431)	671,088	1,349,801
Cash and cash equivalents, end of year	<u>\$ (1,115,325)</u>	<u>\$ 72,297</u>	<u>\$ 1,467,160</u>	<u>\$ 1,652,137</u>	<u>\$ (177,431)</u>	<u>\$ (683,527)</u>	<u>\$ 925,159</u>	<u>\$ 2,140,470</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, 2019

SCHEDULE VI

Chief Executive Officer Name: Mr. Jay Altman

<u>Purpose</u>	<u>Amount</u>
Salary	\$159,237
Benefits – insurance	7,186
Benefits – retirement	9,554
Car allowance	-0-
Vehicle provided by government	-0-
Per diem	-0-
Reimbursements	1,758
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.



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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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 3, 2020.

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 deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 to 2019-0004 that we consider to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-005, 2019-006 and 2019-007.

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 **FirstLine's** corrective action plan, dated March 3, 2020. **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

March 3, 2020



Member
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Waldo J. Moret, Jr., CPA
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Joseph A. Akanji, CPA

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, 2019. **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, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-005 to 2019-007. Our opinion on each major federal program is not modified with respect to these matters.

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

Other Matters, Continued

FirstLine's response to the noncompliance findings 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 compliance and, accordingly, we express no opinion on the response.

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.

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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-005 to 2019-007 to be significant deficiencies.

Response to Findings

FirstLine's response to the internal control over compliance findings identified in our audit is described in FirstLine's corrective action plan, dated March 3, 2020. FirstLine's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

March 3, 2020

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

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? **Yes.**
- 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? **Yes.**
- 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, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS, CONTINUED

- J. Major programs:
- U.S. Department of Education:
 - Special Education Cluster - CFDA No. 84.027
CFDA No. 84.173
 - IDEA B – High Cost Services - CFDA No. 84.282C
 - U. S. Department of Agriculture:
 - Child Nutrition Cluster - CFDA No. 10.555
CFDA No. 10.553
 - U.S. Department of HHS:
 - Temporary Assistance for
Needy Families - CFDA No. 93.558
- 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, 2019

Section II - FINANCIAL STATEMENT FINDINGS

Audit Finding Reference Number

2019-001 Financial Close-Out and Reporting Process/Submission of Audit Report

Finding Classification

Significant deficiency

Finding Type

Late filing of report with Louisiana Legislative Auditor

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

Three (3) – 2017, 2018 and 2019

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, 2019

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-001 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** 2019 fiscal year-end financial close-out and reporting process was not timely completed until February 2020. **FirstLine's** June 30, 2019 financial statements were prepared and finalized nearly eight (8) months after the fiscal year-end.

In addition, the June 30, 2019 audited financial statements were not submitted to the Legislative Auditor by the statutory due date of December 31, 2019.

Cause

The finance department of **FirstLine** has experienced significant personnel turnover during the 2019 fiscal year and during the subsequent fiscal year. As a result of the turnover, **FirstLine** experienced limited staffing capacity to facilitate a timely year-end close.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-001 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, 2019 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.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section II - FINANCIAL STATEMENT FINDINGS

Audit Finding Reference Number

2019-002 Cash Disbursements

Finding Classification

Significant deficiency

Finding Type

Internal controls

Finding Title

Cash disbursements

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

One (1) year - 2019

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, 2019

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-002 Cash Disbursements, 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.

Condition

We noted during our testwork of cash disbursements of the school-site bank accounts that nineteen (19) of twenty-five (25) transactions tested were not supported with source documentation.

Cause

The lack of support was due to inconsistent document retention practices at each of the various schools.

Effect

Internal controls over cash disbursements are weakened.

Recommendation

We recommend that management adhere to its cash disbursement procedures to ensure that all cash disbursements are properly supported with source documentation prior to processing the disbursement for payment.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-003 Deficit in Unrestricted Net Assets – Network Activity

Finding Classification

Significant deficiency

Finding Type

Other

Finding Title

Deficit in Unrestricted Net Assets – Network Activity

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

Two (2) years - 2019 and 2017

Financial Impact of Finding

Greater 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, 2019

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-003 Deficit in Unrestricted Net Assets – Network Activity, Continued

Criteria

Special reporting is required by the State of Louisiana for a quasi-public organization reporting an unrestricted net asset deficit that is greater than accumulated depreciation plus five (5) percent of reported revenue to address the deficit.

Condition

As of June 30, 2019, **FirstLine's** Network activity program reported a significant deficit in unrestricted net assets of \$2,510,419. Also, at June 30, 2019, **FirstLine** voluntarily surrendered the charter of Clark Charter School to NOLA Public Schools. As a result of **FirstLine** no longer operating Clark Charter School as of June 30, 2019, **FirstLine's** Network activity program absorbed into its fiscal year 2020 financial statements the June 30, 2019 deficit in net assets balance of Clark Charter School in the amount of \$602,385.

Cause

In the 2019 fiscal year, **FirstLine's** unrestricted Network activity program absorbed a larger portion of the other programs' deficits, specifically Green, Live Oak, and Clark by reducing the administrative fee charged to the other programs for the current year. Additionally, turnover in finance personnel created a void in program budget monitoring and control, which also significantly impacted the deficit in net assets.

Effect

Continued deficits in net assets could negatively affect **FirstLine's** ability to continue to operate as a viable entity.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-003 Deficit in Unrestricted Net Assets – Network Activity, Continued

Recommendation

Although the combined unrestricted net assets of **FirstLine** is not in a deficit position and no special reporting is required by the State of Louisiana for significant deficits in net assets, we recommend that **FirstLine** develop a written plan to eliminate the significant deficits in net assets of the Network Activity program within the next five (5) years to improve the combined financial position of **FirstLine**.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-004 Untimely Bank Reconciliation

Finding Classification

Significant deficiency

Finding Type

Internal control

Finding Title

Untimely Bank Reconciliation

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

One (1) year - 2019

Financial Impact of Finding

Greater 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, 2019

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-004 Untimely Bank Reconciliation, 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.

Condition

We noted during our audit that the operating bank account at June 30, 2019 was not reconciled until January 2020.

Cause

The finance department of **FirstLine** has experienced significant personnel turnover during the June 30, 2019 fiscal year and during the subsequent fiscal year. As a result of the turnover, **FirstLine** experienced limited staffing capacity and thereby impacting the timeliness with which **FirstLine** was able to complete timely bank reconciliations.

Effect

Material misstatements of cash may not be timely corrected without timely prepared and approved bank reconciliations.

Recommendation

We recommend that all **FirstLine's** bank accounts are timely reconciled to ensure that all checks, receipts and other miscellaneous items are properly recorded into the financial records of **FirstLine**.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS

Audit Finding Reference Number

2019-005 **Maintenance of Effort**

Finding Classification

Single audit finding

Finding Type

Federal finding/Grant administration

Finding Title

Maintenance of Effort

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

One (1) year - 2019

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, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS, CONTINUED

2019-005 Maintenance of Effort, Continued

Federal Program

IDEA, Part B - CFDA # 84:027

Criteria

34 CFR section 300.203(b) prohibits an LEA from reducing the level of expenditures for the education of children with disabilities made by the LEA from local, or State and local funds below the level of those expenditures from the same source for the preceding fiscal year.

Condition

We noted during our test of the Special Education Cluster major program that **FirstLine** did not comply with the maintenance of effort requirement applicable to IDEA, Part B grant funds of Wheatley and Green. In those two (2) schools, local expenditures and per capita expenditures for the 2019 fiscal year were less than the local expenditures and per capita expenditures for the 2018 fiscal year.

Cause

The maintenance of effort was not met due to a change in how **FirstLine** acquired special education evaluation services from fiscal year 2018 to fiscal year 2019. In fiscal year 2019, **FirstLine** hired two (2) full time psychologists to perform evaluations and other special education services in order to decrease the amount **FirstLine** spent on independent contractors. This change did result in a significant cost savings at schools with higher special education populations. Though there was a decrease in total expenses, there was not a decrease in effort as **FirstLine** was able to provide more service hours to **FirstLine's** special education students at a lower hourly rate.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS, CONTINUED

2019-005 Maintenance of Effort, Continued

Federal Program

IDEA, Part B - CFDA # 84:027

Effect

Failure for **FirstLine** to maintain its level of expenditures for the education of children with disabilities in accordance with 34 CFR section 300.203(b) subjects **FirstLine** to an amount of grant recovery action in accordance with 34 CFR 300.203(d).

Questioned Costs

\$39,336

Recommendation

We recommend that **FirstLine** implement control procedures to ensure that maintenance of effort compliance requirements for its IDEA, Part B program are always met.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS, CONTINUED

Audit Finding Reference Number

2019-006 Procurement – Food Service Program

Finding Classification

Single audit finding

Finding Type

Federal finding/Grant administration

Finding Title

Procurement – Food Service Program

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

One (1) year - 2019

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, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS, CONTINUED

2019-006 Procurement – Food Service Program, Continued

Federal Program

Child Nutrition Cluster - CFDA # 10:555 and # 10:553

Criteria

According to the provisions of the food service management company contract, effective for the June 30, 2019 fiscal year, for meals services between **FirstLine** and a food service management company (FSMC), the FSMC may purchase equipment for the food service program in an amount not to exceed \$250,000. The FSMC shall be subject to the same procurement requirements to which **FirstLine** is subject in any procurement action and may not serve as the vendor when procuring on behalf of the school food service.

Condition

During the June 30, 2019 fiscal year, the FSMC purchased equipment on behalf of **FirstLine**. We noted during our audit that the FSMC did not procure the purchased equipment utilizing the same procurement action that **FirstLine** was required to take in accordance with 2 CFR 200.317.

Cause

The FSMC making purchases on **FirstLine's** behalf did not follow the procurement procedures, as stated in the contract, because **FirstLine** had a short timeline to procure the equipment. As such, the FSMC making the purchases utilized vendors with which they had negotiated prices and existing contracts in order to ensure **FirstLine** received the necessary equipment timely.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS, CONTINUED

2019-006 Procurement – Food Service Program, Continued

Federal Program

Child Nutrition Cluster - CFDA # 10:555 and # 10:553

Effect

FirstLine is noncompliance with federal procurement requirements.

Questioned Costs

None

Recommendation

We recommend **FirstLine** establish procedures to ensure that the FSMC takes the same procurement requirements that **FirstLine** is subject to in any procurement action when procuring equipment on behalf of **FirstLine**.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS, CONTINUED

Audit Finding Reference Number

2019-007 Procurement and Suspension and Debarment

Finding Classification

Single audit finding

Finding Type

Federal finding/Grant administration

Finding Title

Procurement and Suspension and Debarment

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

One (1) year - 2019

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, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS, CONTINUED

2019-007 Procurement and Suspension and Debarment, Continued

Federal Program

Special Education Cluster - CFDA # 84:027 and # 84:173

Criteria

Non-Federal entities other than States, including those operating Federal programs as subrecipients of States, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200.

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred.

Condition

During our testwork of procurement and suspension and debarment compliance Requirements of vendors with procurement transactions between \$30,000 and \$150,000, we noted the following:

- In four (4) of eight (8) vendors tested, no documentation was included in a vendor procurement file that **FirstLine** solicited bids or proposal; and
- In five (5) of eight (8) vendors tested, no documentation was included in a vendor procurement file that **FirstLine** verified that the tested vendor was not suspended or debarred or otherwise excluded from participating in the procurement transactions.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2019

Section III - FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS, CONTINUED

2019-007 Procurement and Suspension and Debarment, Continued

Federal Program

Special Education Cluster - CFDA # 84:027 and # 84:173

Cause

The services for which procurement procedures were not performed were for Special Education services. In the past, **FirstLine** found a limited selection of vendors, who provide the unique specialized services **FirstLine**'s students need. As such, **FirstLine** identified vendors that **FirstLine** have worked with in the past and/or have been recommended by partner organizations in order to ensure **FirstLine**'s students receive the specific services they need and considered them "sole source" providers. While formal procurement procedures were not performed, **FirstLine** did ensure the cost of the services were consistent with local market rates.

Effect

FirstLine is noncompliance with federal procurement requirements.

Questioned Costs

None

Recommendation

We recommend **FirstLine** adhere to its procedures to ensure that **FirstLine** complies with procurement and suspension and debarment requirements.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

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

2018-001 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 2019-001.

SECTION II - INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO FEDERAL AWARDS

No matters reported.

SECTION III - MANAGEMENT LETTER

No matters reported.



March 3, 2020
Bruno & Tervalon LLP, CPA's
4298 Elysian Fields Ave
New Orleans, LA 70122

Dear Sirs,

The following is a corrective action plan addressing each finding included in the Firstline School's, Inc. Financial and Compliance and Independent Auditors report for the fiscal year ended June 30, 2019.

**Corrective Action Plan
In Response to Findings Relating to the Financial Statements
Year Ended June 30, 2019**

Section II- Financial Statement Findings

Finding 2019-001 Financial Close and Reporting Process/Submission of Audit Report

Agency's Response:

The finance department at Firstline Schools has experienced significant personnel turnover during FY2019 and during the subsequent fiscal year. As a result of the turnover, we experienced limited staffing capacity to facilitate a timely year-end close. This is a challenge we are still overcoming, but we are working to diligently to fill vacant positions and increase capacity to ensure a timely year-end financial close for FY2020.

Finding 2019-002 Cash Disbursements

Agency's Response:

The disbursements for which documentation was not provided were for checks that were for manual checks that were written at the school level. The lack of support was due to inconsistent document retention practices at each of the various schools. We have since implemented policies and procedures normalizing document retention practices consistent across all schools and to ensure that supporting documentation for all manual checks is provided to the finance department once the check is written.



Finding 2019-003 Deficit in Unrestricted Net Assets -Network Activity

Agency's Response:

In FY2019, the unrestricted Network Activity program absorbed a larger portion of the other programs' deficits, specifically Green, Live Oak, and Clark by reducing the administrative fee charged to the other programs for the current year. Additionally, turnover in finance personnel created a void in program budget monitoring and control which also significantly impacted the net asset deficit. To decrease the deficit, we have implemented budget monitoring procedures, decreased expenses at the Network level, and are continuously working to increase our enrollment to ensure that schools do not incur a deficit and are able to pay the administrative fee to the Network.

Finding 2019-004 Untimely Bank Reconciliation

Agency's Response:

The finance department at Firstline Schools has experienced significant personnel turnover during FY2019 and during the subsequent fiscal year. As a result of the turnover, we experienced limited staffing capacity to thereby impacting the timeliness with which we were able to complete timely bank reconciliations. We have since hired an Accounting Manager to add capacity to the Finance department and ensure routine monthly procedures, including the completion of monthly bank reconciliations, are performed timely.

Finding 2019-005 Maintenance of Effort

Agency's Response:

The maintenance of effort was not met due to a change in how we acquired special education evaluation services from FY2018 to FY2019. In FY2019 we hired two full time psychologists to perform evaluations and other special education services in order to decrease the amount we spent on independent contractors. This change did result in a significant cost savings at schools with higher special education populations. Though there was a decrease in total expenses, there was not a decrease in effort as we were able to provide more service hours to our special education students at a lower hourly rate.



Finding 2019-006 Procurement – Food Service Programs

Agency's Response:

The vendor making purchases on our behalf did not follow the procurement procedures as stated in the contract because we had a short timeline to procure the equipment. As such, the vendor making the purchases utilized vendors with which they had negotiated prices and existing contracts in order to ensure we received the necessary equipment timely. We have since reiterated to the vendor the importance of adhering to our procurement processes to ensure that going forward any purchases made our behalf are done so in accordance with our procurement policies.

Finding 2019-007 Procurement and Suspension and Debarment

Agency's Response:

FLS failed to adhere to policies and procedures requiring documentation that certification of non-suspension and debarment be maintained on file. Going forward, we will ensure to maintain documentation that confirms the certification was performed.

The services for which procurement procedures were not performed were for Special Education services. In the past we have found a limited selection of vendors who provide the unique specialized services our students need, as such we identified vendors that we have worked with in the past and/or have been recommended by partner organizations in order to ensure our students receive the specific services they need and considered them "sole source" providers. While formal procurement procedures were not performed, we did ensure the cost of the services were consistent with local market rates.

If you have any questions concerning this response, please contact Tiffany Robbins, Controller at (504) 239-8728.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sabrina Pence", is written over a light blue horizontal line.

Sabrina Pence
Chief Executive Officer

FIRSTLINE SCHOOLS, INC.
INDEPENDENT ACCOUNTANTS' REPORT
ON
APPLYING BESE AGREED-UPON PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2019

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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, 2019, 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

March 3, 2020

**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.

*We noted **FirstLine** was not able to provide supporting documentation for two (2) of the twenty-five (25) transactions tested.*

We also noted one (1) of twenty-five (25) transactions reviewed was incorrectly recorded as contract services instead of subscriptions.

Management Response

The disbursements for which documentation was not provided were for checks that were for manual checks that were written at the school level. The lack of support was due to inconsistent document retention practices at each of the various schools. **FirstLine** has since implemented policies and procedures normalizing document retention practices consistent across all schools and to ensure that supporting documentation for all manual checks is provided to the finance department once the check is written.

**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, 2018 roll books for those classes and observed that the class was properly classified on the schedule.

*We noted **FirstLine** had inaccurately reported the class size of five (5) of the ten (10) roll books tested.*

Management Response

Class sizes appeared to have been inaccurately reported due to our failure to obtain a static report from our data reporting system as of October 1, 2018. The report provided during the audit was a dynamic report that is continuously updated for current activity and therefore did not agree with the October 1, 2018 roll books. Going forward **FirstLine** will obtain a static report as of the date of the student count to ensure agreement with roll books.

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 ten (10) of the twenty-five (25) individuals tested.*

*We noted that **FirstLine** had inaccurately reported the education level of two (2) of the twenty-five (25) individuals tested.*

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

(CONTINUED)

PROCEDURES AND FINDINGS, CONTINUED

Management Response

Management has instituted a practice of asking the employee to state their years of experience and has added a dual review of newly hired employees resumes by the human resources staff to confirm the employee years of experience. Human Resources will codify this process with a standardized method of counting years of experience. Additionally, in Fiscal Year 19, **FirstLine** implemented a new Human Resources Information System (HRIS) to serve as the official employee database which includes educational level, experience, all demographic data, as well as salary information, any extra compensation. While undergoing this implementation, all staff files were internally audited and staffs were asked to review their current information to ensure accuracy and completeness of information being reported.

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 one (1) 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 recently implemented a Human Resources Information System (HRIS) which serve as the official employee database. This database includes salary information, any extra compensation, educational level, experience and all demographic data. While undergoing this implementation, all staff members were required to review their current information to ensure accuracy and completeness of information being contained in employee personnel files and included 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, 2019

**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, 2019

General Fund Instructional and Equipment Expenditures

General Fund Instructional Expenditures:

Teacher and Student Interaction Activities:

Classroom Teacher Salaries	\$ 11,225,588	
Other Instructional Staff Activities	2,195,088	
Employee Benefits	2,830,433	
Purchased Professional and Technical Services	1,877,018	
Instructional Materials and Supplies	1,656,694	
Instructional Equipment	-	
Total Teacher and Student Interaction Activities	<u>19,784,821</u>	

Other Instructional Activities		244,627
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Pupil Support Activities	2,605,802	
Less: Equipment for Pupil Support Activities	<u>-</u>	
Net Pupil Support Activities		2,605,802

Instructional Staff Services	2,316,634	
Less: Equipment for Instructional Staff Services	<u>-</u>	
Net Instructional Staff Services		2,316,634

School Administration	586,951	
Less: Equipment for School Administration	<u>-</u>	
Net School Administration		<u>586,951</u>

Total General Fund Instructional Expenditures		<u><u>\$ 25,538,835</u></u>
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Total General Fund Equipment Expenditures		<u><u>\$ -</u></u>
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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>\$ -</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>\$ -</u></u>

State Revenue in Lieu of Taxes:

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

Nonpublic Textbook Revenue	<u><u>\$ -</u></u>
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Nonpublic Transportation Revenue	<u><u>\$ -</u></u>
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See accompanying independent accountants' report on applying agreed-upon procedures.

FIRSTLINE SCHOOLS, INC.
Class Size Characteristics
As of October 1, 2018

School Type	Class Size Range							
	1 - 20		21 - 26		27 - 33		34+	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Elementary	25.0%	164	9.0%	63	54.0%	362	12.0%	77
Elementary Activity Classes	20.0%	18	13.0%	12	59.0%	53	8.0%	7
Middle/Jr. High	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Middle/Jr. High Activity Classes	0.0%	0	0.0%	0	0.0%	0	0.0%	0
High	86.0%	19	14.0%	3	0.0%	0	0.0%	0
High Activity Classes	100.0%	1	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, 2019



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, 2018 through June 30, 2019. **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.

No exceptions were noted.

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.

Management's Response

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

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

- 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 2019, **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.

- 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 ethics policy does not address (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, annually attest through signature verification that they have read the entity's ethics policy.

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

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 before the end of fiscal year 2020.

- 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.

- k) **Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

FirstLine does not have a formal disaster recovery/business continuity policy.

Management's Response

FirstLine has not established and implemented a formal disaster recovery/business continuity policy. **FirstLine** has begun this process and will have policy in place by the end of fiscal year 2020.

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 four (4) of five (5) bank reconciliations were not prepared within two (2) months of the related statement closing date.

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

Management's Response

FirstLine experienced significant personnel turnover during fiscal year 2019 resulting in challenges in effectively implementing monthly financial close-out procedures, including timely reconciliation of bank accounts. **FirstLine** has since increased capacity and is now ensuring bank accounts are reconciled within two months of the month's end.

- 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 Chief Financial Officer 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 Chief Executive Officer, who does not have the ability to post to the general ledger, review the bank statements and bank reconciliations on a monthly basis as the bank reconciliations are completed.

- 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 reconciliation for the Clark operating account had two (2) reconciling items older than twelve (12) months; however, there was no documentation reflecting management researched these items.

Management's Response

Significant personnel turnover experienced during fiscal year 2019 resulted in long outstanding transactions not being researched and resolved on a timely basis. **FirstLine** has since increased capacity and is now ensuring transactions outstanding greater than ninety days are researched and resolved.

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

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.

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.

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

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

a) Observed that receipts are sequentially pre-numbered.

We noted there was no sequentially numbered receipts for six (6) of the ten (10) deposits tested.

Management's Response

FirstLine's cash receipts policy does require sequentially numbered receipts be issued for all cash collections. Going forward **FirstLine** will ensure that this policy is adhered to for all receipts at all locations.

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

No exceptions were noted.

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

No exceptions were noted.

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 none of the deposits were made within one (1) business day of receipt at the collection location or the deposit was less than \$100.

Management's Response

FirstLine is working towards making deposits within one business day of receipt, but due to capacity constraints **FirstLine** has not yet achieved that goal. Currently **FirstLine** is making deposits within five business days of receipt and expect to have procedures in place ensure deposits are made within one business day of receipt by the end of FY2020.

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

No exceptions were noted.

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

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.

- 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.

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

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 twenty (20) of twenty-five (25) disbursements supporting documentation could not be provided; therefore, we were not able to determine if the disbursement matched the original invoice/billing statement.

Management's Response

The disbursements for which documentation was not provided were for checks that were for manual checks that were written at the school level. The lack of support was due to inconsistent document retention practices at each of the various schools. **FirstLine** has since implemented policies and procedures normalizing document retention practices consistent across all schools and to ensure that supporting documentation for all manual checks is provided to the finance department once the check is written.

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

We were not able to determine and or noted no evidence of segregation of duties related to the initiating a purchase request and placing an order for twenty-two (22) of twenty-five (25) disbursements. We were not able to determine and or noted no evidence of segregation of duties related to the processing and approving payments to vendors in twenty-two (22) of twenty-five (25) disbursements. We were not able to determine if the employee responsible for signing checks give the checks to the employee responsible for processing payments in all twenty-five (25) disbursements selected, due to lack of supporting documentation for twenty (20) transactions and no evidence on supporting documentation for five (5) transactions.

Management's Response

The disbursements for which documentation was not provided were for checks that were for manual checks that were written at the school level. The lack of support was due to inconsistent document retention practices at each of the various schools. **FirstLine** has since implemented policies and procedures normalizing document retention practices consistent across all schools and to ensure that supporting documentation for all manual checks is provided to the finance department once the check is written.

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

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 was finance charges and/or late fees assessed on one (1) of the five (5) monthly statements reviewed.

Management's Response

Management ensures that supporting documentation for all transactions on the credit card statement has been received prior to paying the monthly balance. If all supporting documentation has not been received for all transactions this results in the bill being paid after the due date. **FirstLine** has since revised procedures regarding supporting documentation submission to ensure that all required support is received timely and in advance of the bill payment due date to ensure that monthly credit card statement balances are paid on time and that late fees are not incurred.

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.

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

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

We noted no documentation of the business/public purpose for five (5) of the ten (10) transactions tested.

Management's Response

Management will ensure the business purpose is documented appropriately for all future credit card transactions.

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

We noted no documentation of the individuals participating in meals for three (3) of the ten (10) transactions tested.

Management's Response

Management will ensure that all credit card transactions incurred for meals is adequately supported by a list of participants/attendees.

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 will ensure that supporting documentation is obtained and properly filed for all expense reimbursements.

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 supporting documentation is obtained and properly filed for all expense reimbursements.

- 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).

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

Management's Response

Management will ensure that supporting documentation is obtained and properly filed for all expense reimbursements.

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

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

Management's Response

Management will ensure that supporting documentation is obtained and properly filed for all expense reimbursements.

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

Payroll and Personnel

15. 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.

16. 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.

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

No exceptions were noted.

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.

17. 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.

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18. 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.

Ethics

19. 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

Management has since implemented procedures to ensure that all employees read the ethics policy and complete ethics training on an annual basis. **FirstLine** has thoroughly reviewed all personnel files to ensure that documentation that the annual ethics training has been completed is included in each employee's file.

- 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

Management has since implemented procedures to ensure that all employees read the ethics policy and complete ethics training on an annual basis. **FirstLine** has thoroughly reviewed all personnel files to ensure that documentation that the annual ethics training has been completed is included in each employee's file.

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Debt Service

20. 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.

21. 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

22. 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.

23. 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.

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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

March 3, 2020