FIRSTLINE SCHOOLS, INC.

FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2017

Bruno & Tervalon LLP
Certified Public Accountants

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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, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
FirstLine Schools, Inc.

Auditors' Responsibility, Continued

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **FirstLine** as of June 30, 2017, 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.

To the Board of Directors of
FirstLine Schools, Inc.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018 on our consideration of **FirstLine's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **FirstLine's** internal control over financial reporting and compliance.

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

April 30, 2018

FIRSTLINE SCHOOLS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

Cash and cash equivalents (NOTES 1 and 4)	$	918,991
Cash held for others		166,172
Grants receivable (NOTE 8)		1,323,618
Other receivables		733,357
Prepaid expenses		22,078
Property and equipment, net (NOTES 1 and 2)		1,202,740
Total assets	$	4,366,956

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	$	1,900,599
Accrued liabilities		1,060,091
Funds held on behalf of others		166,172
Loan payable (NOTE 13)		740,740
Total liabilities		3,867,602
Net Assets:		
Unrestricted		(171,882)
Temporaily restricted		671,236
Total net assets		499,354
Total liabilities and net assets	$	4,366,956

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

FIRSTLINE SCHOOLS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local sources:			
Minimum Foundation Program	$ 16,231,945	$ -	$ 16,231,945
Management fee	76,743	-	76,743
Contributions	1,784,443	1,735,522	3,519,965
Interest earnings	3,499	-	3,499
Fundraising activities	3,059	-	3,059
Other	443,083	-	443,083
Total local sources	18,542,772	1,735,522	20,278,294
State sources:			
Minimum Foundation Program	12,591,154	-	12,591,154
Grants	173,622	-	173,622
Total state sources	12,764,776	-	12,764,776
Federal grants	8,751,380	-	8,751,380
Net assets released from restrictions (NOTE 7)	1,064,286	(1,064,286)	-
Total revenues	41,123,214	671,236	41,794,450
EXPENSES			
Program Services:			
Instruction programs	16,440,521	-	16,440,521
Support Services:			
Pupil support services	7,885,962	-	7,885,962
Instructional staff services	1,795,054	-	1,795,054
School administration	4,055,860	-	4,055,860
Business services	3,981,667	-	3,981,667
Operations and maintenance	3,041,710	-	3,041,710
Student transportation services	3,311,563	-	3,311,563
Central services	615,092	-	615,092
Food services operations	3,636,686	-	3,636,686
Fundraising	53,318	-	53,318
Depreciation	350,849	-	350,849
Total expenses	45,168,282	-	45,168,282
Changes in net assets	(4,045,068)	671,236	(3,373,832)
Net assets, beginning of year	3,873,186	-	3,873,186
Net assets, end of year	$ (171,882)	$ 671,236	$ 499,354

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

FIRSTLINE SCHOOLS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in net assets	$ (3,373,832)
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Depreciation expense	350,849
Non cash revenue item related to interest free loan	(59,260)
Changes in assets and liabilities:	
Decrease in prepaid expense	201,407
Increase in grants receivable	(252,588)
Decrease in other receivables	585,137
Decrease in other assets	53,697
Increase in accounts payable	1,129,755
Decrease in accrued liabilities	(478,400)
Increase in funds held on behalf of others	47,275
Net cash used in operating activities	(1,795,960)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(329,822)
Net cash used in investing activities	(329,822)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from loan payable	800,000
Net cash provided by investing activities	800,000
Decrease in cash and cash equivalents	(1,325,782)
Cash and cash equivalents, beginning of year	2,410,945
Cash and cash equivalents, end of year	$ 1,085,163

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

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

General

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

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

In the 2016-2017 school year, Green, Ashe, Wheatley, Clark and Hughes served the following number of students:

Green	493
Ashe	747
Wheatley	730
Clark	201
Hughes	798
Total	2,969

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.

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

Property and Equipment, Continued

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

Grant Revenue

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

Grants Receivable

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

Statement of Cash Flows

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

Income Taxes

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

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

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

Financial Statement Presentation

For the year ended June 30, 2017, **FirstLine** followed the requirements of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 958-205, *Not-for-Profit Entities, Presentation of Financial Statements,* in the presentation of its financial statements. Under FASB ASC Section 958-205, **FirstLine** is required to report, as applicable, information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. In addition, **FirstLine** is required to present a statement of cash flows.

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

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

At June 30, 2017, **FirstLine** had no permanently restricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded as pledges receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met. Management has determined that the pledges receivable are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at June 30, 2017.

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

Contributions

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

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

Minimum Foundation Program (MFP)

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

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among program and support services in the accompanying statement of activities.

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

Vacation Leave

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

Paid Leave

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

NOTE 2 - PROPERTY AND EQUIPMENT:

The following is a summary of property and equipment at June 30, 2017:

Land	$ 181,485
Building improvements	2,314,935
Equipment	2,200,733
Total property and equipment	4,697,153
Less: accumulated depreciation	(3,494,413)
Net property and equipment	$ 1,202,740

For the year ended June 30, 2017, depreciation expense was $350,849.

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, 2017 were $668,992.

NOTE 5 - CONTINGENCY:

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

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

NOTE 6 - IN-KIND CONTRIBUTIONS:

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

NOTE 6 - IN-KIND CONTRIBUTIONS, CONTINUED:

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

NOTE 7 - NET ASSETS RELEASED FROM RESTRICTIONS:

For the year ended June 30, 2017, net assets were released from donor restrictions in the amount of $1,064,286 by incurring expenses satisfying the restricted purposes specified by donors for the Edible School Yard Program.

NOTE 8 - GRANTS RECEIVABLE:

At June 30, 2017, grants receivable consisted of the following sources:

Federal	$ 468,950
Local	854,668
	$1,323,618

NOTE 9 - SUBSEQUENT EVENTS:

FirstLine is required to evaluate events or transactions that may occur after the statement of financial position date for potential recognition or disclosure in the financial statements. **FirstLine** performed such an evaluation through April 30, 2018, 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.

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, 2017.

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, 2017.

NOTE 12 - OPERATING LEASE:

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

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

Year	Amount
2018	$ 343,597
2019	348,571
2020	353,982
2021	268,463
Total	$1,314,793

NOTE 13 - Loan Payable:

A private foundation has provided an unsecured, interest-free loan totaling $800,000 for **FirstLines's** operations. Principal on the loan is due in full at maturity in the 2019 fiscal year. When the loan proceeds were advanced, **FirstLine** recorded contribution revenue and a loan discount using an 8% rate. The loan is reperted in the statement of financial position net of unamortized discount of $59,260 at June 30, 2017.

SUPPLEMENTARY INFORMATION

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Program Name	Federal CFDA Number		Federal Expenditures
U.S. Department of Education			
Awards from a Pass-Through Entity			
Passed-Through: LA State Department of Education			
IASA, Title I, Part A	84.010	$	1,940,012
IASA, Title II, Part A	84.367		243,781
IASA, Title III, Part A	84.033		20,994
IDEA, Part B	84.027		758,707
IDEA B- High Cost Services	84.282C		154,409
IDEA, Preschool	84.173		7,724
21st Century	84.287		337,268
State Personnel Development Grant	84.323		8,585
Striving Readers Comprehensive Literacy	84.371		264,222
School Improvement Grants (Section 1003(g) of the ESSEA)	84.377		1,009,011
Total LA State Department of Education			4,744,713
Passed-Through: New Orleans Business Alliance			
Perkins	84.048		11,269
Total New Orleans Business Alliance			11,269
Passed-Through: New Schools for New Orleans			
Teacher Incentive Fund	84.374		93,068
CSP	84.282C		22,000
Total New Schools for New Orleans			115,068
Total U.S. Department of Education			4,871,050
U. S Department of Homeland Security			
Awards from a Pass-Through Entity			
Passed-Through: Governor's Office of Security and Emergency Preparedness			
FEMA Disaster Relief	97.036		24,720
Total U.S. Department of Homeland Security			24,720

See Independent Auditors' Report on Supplementary Information.

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Program Name	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Direct Awards		
Farm to School Grant Program	10.575	$ 50,000
Awards from a Pass-Through Entity		
Passed-Through: LA State Department of Education		
Child Nutrition Cluster:		
Summer Feeding	10.559	52,712
National School Lunch Program and Breakfast Program	10.555, 10.553	2,405,988
Fresh Fruit and Vegetable Program	10.582	63,150
Total Child Nutrition Cluster		2,521,850
Passed-Through: LA State Department of Education		
Child and Adult Care Food Program	10.558	1,084,928
Total U.S. Department of Agriculture		3,656,778
U.S Department of Health and Human Services		
Awards from a Pass-Through Entity		
Passed-Through: Recovery School District		
Temporary Assistance for Needed Families	93.558	158,832
U.S Department of Health and Human Services		158,832
Total Expenditures of Federal Awards		$ 3,751,380

NOTE: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of **Firstline** under programs of the federal government for the year ended June 30, 2017 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.

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2017

	Edible School Yard	FirstLine Network Activity	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	$ 4,445	$ 787,906	$ 43,420	$ 1,974	$ 934	$ 2,003	$ 78,309	$ -	$ 918,991
Cash held for others	-	-	49,969	15,059	42,310	7,812	51,022	-	166,172
Grants receivable	680,000	32,371	38,874	122,263	212,842	172,190	152,869	-	1,321,618
Other receivables	2,177	605,052	8,374	34,409	13,200	1,812	18,333	-	733,357
Due from other programs	380,544	4,137,312	3,629,138	2,112,996	2,415,918	940,436	3,097,238	(16,639,053)	-
Prepaid expenses	569	12,041	288	2,342	4,392	2,079	567	-	22,278
Property and equipment, net	-	206,282	413,106	84,333	393,209	1,740	106,069	-	1,262,740
Total assets	$ 907,335	$ 5,839,464	$ 4,175,164	$ 2,362,736	$ 3,082,805	$ 1,134,058	$ 3,504,407	$ (16,639,053)	$ 4,366,956
LIABILITIES AND NET ASSETS									
Liabilities:									
Accounts payable	$ -	$ 335,675	$ 443,681	$ 261,794	$ 344,402	$ 103,180	$ 369,862	$ -	$ 1,900,599
Accrued liabilities	16,658	13,130	241,925	162,975	249,314	124,435	231,815	-	1,040,091
Funds held on behalf of others	-	-	49,969	15,059	42,310	7,812	51,022	-	166,172
Loan payable	-	780,740	-	-	-	-	-	-	780,740
Due to other programs	327,199	7,258,448	1,966,984	1,885,572	2,337,651	926,437	1,895,643	(16,639,053)	-
Total liabilities	343,857	8,388,044	2,702,519	2,326,358	2,973,786	1,203,869	2,568,142	(16,639,053)	3,867,602
Net Assets:									
Unrestricted	(107,758)	(2,548,580)	1,472,645	36,378	109,019	(69,811)	936,265	-	(171,882)
Temporarily restricted	671,236	-	-	-	-	-	-	-	671,236
Total net assets	563,478	(2,548,580)	1,472,645	36,378	109,019	(69,811)	936,265	-	499,354
Total liabilities and net assets	$ 907,335	$ 5,839,464	$ 4,175,164	$ 2,362,736	$ 3,082,805	$ 1,134,058	$ 3,504,407	$ (16,639,053)	$ 4,366,956

See Independent Auditors' Report on Supplementary Information

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Edible School Yard	FirstLine Network Activity	Arthur Ashe Charter School	Samuel J. Green Charter School	Phillis Wheatley Charter School	Joseph S. Clark Charter School	Langston Hughes Academy Charter School	Eliminations	Total
REVENUES									
Local sources:									
Minimum Foundation Program	$ -	$ -	$ 4,001,580	$ 3,650,663	$ 4,348,756	$ 3,183,580	$ 4,307,660	$ -	$ 19,231,945
Administrative fee revenue	-	2,173,315	-	-	-	-	-	(2,173,315)	-
Management fee	-	76,743	-	-	-	-	-	-	76,743
Contributions-unrestricted	-	1,271,558	93,179	4,899	290,680	203,133	383	-	1,784,443
Contributions-temporarily restricted	1,759,522	-	-	-	-	-	-	-	1,759,522
Interest earnings	43	1,809	154	293	1,200	-	-	-	3,499
Fundraising activities	3,059	-	-	-	-	-	-	-	3,059
Other	2,496	19,393	78,538	73,732	65,278	31,017	124,649	-	441,083
Total local sources	1,767,120	3,540,516	4,173,341	3,728,587	4,905,915	1,417,632	4,292,338	(2,173,315)	22,278,284
State sources:									
Minimum Foundation Program	-	-	3,056,803	2,180,338	2,850,688	1,349,111	3,233,178	-	12,591,134
Grants	-	-	1,399	1,085	85,354	879	84,945	-	173,622
Total state sources	-	-	3,058,202	2,182,423	2,936,048	1,349,990	3,318,123	-	12,764,756
Federal grants	38,000	304,892	1,754,852	1,128,111	1,744,786	1,647,875	2,119,362	-	8,751,180
Total revenues	1,791,120	3,849,408	8,945,295	8,021,321	9,274,741	4,335,617	9,754,263	(2,173,315)	43,798,450
EXPENSES									
Program Services:									
Instruction programs	-	302,672	3,866,282	2,792,233	3,791,496	1,472,682	4,215,134	-	16,440,321
Support Services:									
Pupil support services	-	482,886	1,580,162	1,266,858	1,698,387	1,182,705	1,874,564	-	7,085,562
Instructional staff services	1,004,073	664,977	130,004	-	-	-	-	-	1,799,054
School administration	-	15,916	662,913	734,961	932,579	819,439	889,032	-	4,055,840
Business services	8,561	3,776,433	42,173	16,092	34,403	26,707	43,139	-	3,980,687
Operations and maintenance	4,582	339,827	491,486	314,511	842,835	358,554	670,795	-	3,041,700
Student transportation services	-	-	783,706	625,208	722,146	659,344	801,139	-	3,311,583
Central services	-	611,092	847,732	197,723	863,930	-	563,939	(2,173,315)	433,093
Food services operations	-	18,182	1,042,950	447,357	928,245	149,821	1,049,931	-	3,636,486
Fundraising	51,170	2,148	-	-	-	-	-	-	53,318
Depreciation	-	4,458	138,590	29,733	68,066	22,498	65,512	-	350,899
Total expenses	1,064,286	6,217,811	9,527,597	8,464,838	9,602,087	4,691,762	9,977,216	(2,173,315)	47,372,282
Changes in net assets	726,834	(2,368,403)	(582,302)	(443,517)	(327,346)	(356,145)	(222,953)	-	(3,573,832)
Net assets, beginning of year	(363,356)	(180,177)	2,054,907	479,895	436,365	86,334	1,159,218	-	3,673,186
Net assets, end of year	$ 363,478	$ (2,548,580)	$ 1,472,605	$ 36,378	$ 109,019	$ (269,811)	$ 936,265	$ -	$ 99,354

See Independent Auditors' Report on Supplementary Information

FIRSTLINE SCHOOLS, INC.
COMBINING SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Edible School Yard	FirstLine Network Activity	Arthur Ashe Charter School	Samuel J. Green Charter School	Phillis Wheatley Charter School	Joseph S. Clark Charter School	Langston Hughes Academy Charter School	Total
CASH FLOWS FROM OPERATING ACTIVITIES:								
Changes in net assets	$ 726,834	$ (2,368,403)	$ (582,302)	$ (443,517)	$ (323,346)	$ (156,145)	$ (222,953)	$ (3,371,832)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:								
Depreciation expense	-	6,458	138,590	29,733	88,066	22,490	45,512	330,849
Non cash revenue item related to interest free loan		(59,200)						(59,200)
Changes in assets and liabilities:								
(Increase) decrease in prepaid expense	(369)	55,250	28,999	34,913	50,847	3,441	28,324	201,407
(Increase) decrease in grants receivable	(600,000)	145,380	(30,874)	(6,598)	99,662	6,539	113,303	(272,588)
(Increase) decrease in other receivables	36,004	72,324	330,397	3,757	142,800	(1,812)	(18,333)	565,137
Increase in due from other programs	(300,344)	(3,792,873)	(1,822,548)	(1,417,849)	(2,339,888)	(806,707)	(1,945,884)	(12,626,093)
Decrease in other assets	-	4,854	-	24,060	9,644	-	15,139	53,697
Increase in accounts payable	-	300,887	159,422	180,105	138,886	91,851	258,594	1,129,755
Decrease in accrued liabilities	(3,792)	(109,451)	(38,673)	(68,314)	(75,178)	(87,092)	(95,658)	(478,408)
(Decrease) increase in funds held on behalf of others	-	(51,298)	37,366	743	34,094	-	26,368	47,275
Increase in due to other programs	131,807	5,629,926	1,966,984	1,886,572	2,264,954	926,437	1,819,413	12,626,093
Net cash provided by (used in) operating activities	(9,860)	(2,166,238)	207,361	23,409	86,541	(998)	63,825	(1,795,960)
CASH FLOWS FROM INVESTING ACTIVITIES:								
Purchases of property and equipment	-	(28,981)	(171,755)	(33,902)	(58,617)	(1,747)	(34,820)	(329,822)
Net cash used in investing activities	-	(28,981)	(171,755)	(33,902)	(58,617)	(1,747)	(34,820)	(329,822)
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from loan payable	-	800,000	-	-	-	-	-	800,000
Net cash provided by investing activities	-	800,000	-	-	-	-	-	800,000
Increase (decrease) in cash and cash equivalents	(9,860)	(1,395,219)	35,606	(10,493)	27,924	(2,745)	29,005	(1,325,782)
Cash and cash equivalents, beginning of year	14,305	2,183,125	57,783	27,526	15,320	12,566	100,326	2,410,945
Cash and cash equivalents, end of year	$ 4,445	$ 787,906	$ 93,389	$ 17,033	$ 43,244	$ 9,821	$ 129,331	$ 1,085,163

See Independent Auditors' Report on Supplementary Information

FIRSTLINE SCHOOLS, INC. **SCHEDULE V**

SCHEDULE OF COMPENSATION, BENEFITS AND
OTHER PAYMENTS TO THE CHIEF EXECUTIVE OFFICER
FOR THE YEAR ENDED JUNE 30, 2017

Chief Executive Officer Name: Mr. Jay Altman

Purpose	**Amount**
Salary	$156,100
Benefits – insurance	6,765
Benefits – retirement	9,366
Car allowance	-0-
Vehicle provided by government	-0-
Per diem	-0-
Reimbursements	918
Travel	1,418
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.

Bruno & Tervalon LLP
Certified Public Accountants

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
FirstLine Schools, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **FirstLine Schools, Inc. (FirstLine)** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

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.

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JACKSON, MS 39202
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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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 to 2017-005 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

FirstLine's response to the findings identified in our audit is described in a separate letter identified as the audit's corrective action plan, dated April 30, 2018.

Purpose of this Report

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

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

April 30, 2018

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, 2017. **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.

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, 2017.

Report on Internal Control Over Compliance

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

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

Report on Internal Control Over Compliance, Continued

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

Purpose of this Report

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

Bruno & Tervalon LLP

BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS
New Orleans, Louisiana

April 30, 2018

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

A. Type of report issued on the financial statements: **Unmodified**.

B. Did the audit disclose any material weaknesses in internal control over financial reporting? **No.**

C. Did the audit disclose any significant deficiencies in internal control over financial reporting that are not considered to be material weaknesses? **Yes.**

D. Did the audit disclose any non-compliance which is material to the financial statements? **No.**

E. Did the audit disclose any material weaknesses in internal control over major federal programs? **No**.

F. Did the audit disclose any significant deficiencies in internal control over major programs that are not considered to be material weaknesses? **None Reported**.

G. Type of report issued on compliance for major programs: **Unmodified**.

H. Did the audit disclose any audit findings required to be reported in accordance with Section 200.516(a) of the Uniform Guidance? **No**.

I. Was a management letter issued? **No.**

SECTION I - SUMMARY OF AUDITORS' RESULTS, CONTINUED

J. Major programs:

U.S. Department of Education:		
School Improvement Grants	-	CFDA No. 84.377
U. S. Department of Agriculture:		
Child and Adult Care Food Program	-	CFDA No. 10.558
U. S. Department of Health and Human Services:		
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: **Yes**.

Section II - FINANCIAL STATEMENT FINDINGS

Audit Finding Reference Number

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

Finding Classification

Significant deficiency

Finding Type

Internal controls

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

One (1)-2017

Financial Impact of Finding

Less than $150,000

Resolution is With or Without Cause

With cause

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-001 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** 2017 fiscal year-end financial close-out and reporting process was not timely completed until March 2018. From the period of February 2017 through November 2017, **FirstLine's** accounting department was operating without a Chief Financial Officer (CFO) to provide the accounting department with oversight and management for financial reporting, financial planning, record-keeping and financial risks. Therefore, **FirstLine's** June 30, 2017 financial statements were prepared and finalized nearly nine (9) months after the fiscal year-end. In December 2017, a new CFO was hired.

In addition, the June 30, 2017 audited financial statements were not submitted to the Legislative Auditor by the statutory due date of December 31, 2017.

Cause

This condition was caused by 1) sudden turnover of key financial personnel during the period of the financial close-out and reporting process, 2) the lack of a transitional period for the new accounting personnel to familiarize themselves with **FirstLine's** financial operations, and 3) needed updated written financial close-out and reporting policies and procedures.

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-001 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, 2017 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.

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-002 Documented Reviews and Approvals

Finding Classification

Significant deficiency

Finding Type

Internal controls

Finding Title

Documented reviews and approvals

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

One (1)-2017

Financial Impact of Finding

Less than $150,000

Resolution is With or Without Cause

With cause

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-002 Documented Reviews and Approvals, Continued

Criteria

Management of **FirstLine** is responsible for maintaining a system of recordkeeping that will ensure that all documentation is complete, accurate and properly retained for the required time period.

Condition

We noted during our audit that supervisory reviews and approvals were not documented for the following activities:

- employee time review process;
- bank statement review process;
- bank reconciliation review process; and
- credit card charges of authorized cardholders review process.

The noted deficiencies were not significant enough to warrant any proposed audit adjustments.

Cause

FirstLine lacks written policies and procedures regarding documentation of certain review and approval processes.

Effect

Possible material misstatements or errors due to fraud may occur intentionally or unintentionally without timely detections.

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-002 Documented Reviews and Approvals, Continued

Recommendation

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

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-003 Requisition and/or Purchase Order System

Finding Classification

Significant deficiency

Finding Type

Accounting records documentation

Finding Title

Requisition and/or purchase order system

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

One (1)-2017

Financial Impact of Finding

Less than $150,000

Resolution is With or Without Cause

With cause

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-003 Requisition and/or Purchase Order System, Continued

Criteria

Appropriate records should be in place to ensure that all payments disbursed are properly authorized, approved, processed and related supports are properly recorded and kept according to the established policies and procedures.

Condition

We noted twelve (12) of twenty-five (25) tested payments for purchases were processed without 1) an approved requisition and/or purchase order, 2) a receiving report showing receipt of goods purchased, or electronic equivalent; and 3) an approved invoice.

Cause

FirstLine failed to follow established policies and procedures.

Effect

Potential fraudulent activities could occur and not be detected on a timely basis.

Recommendation

We recommend that **FirstLine** revisit its current requisition and/or purchase order system to ensure all required policies and procedures are strictly followed as established.

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-004 Unrestricted Net Asset Deficit – Network Activity

Finding Classification

Significant deficiency

Finding Type

Other

Finding Title

Unrestricted Net Asset Deficit – Network Activity

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

One (1)-2017

Financial Impact of Finding

Greater than $150,000

Resolution is With or Without Cause

With cause

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-004 Unrestricted Net Asset Deficit – 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 5 percent of reported revenue to address the deficit.

Condition

As of June 30, 2017, **Firstline's** Network Activity program reported a significant unrestricted net asset deficit of $2,548,580.

Cause

In 2017, the unrestricted Network Activity program absorbed a larger portion of the other programs' deficits by reducing the administrative fee charged to the other programs for the current year. The separation of the Edible School Yard program from the unrestricted Network Activity program is another contributing factor. Subsequent to year end and moving forward, Edible School Yard program will be combined with the unrestricted **FirstLine's** Network Activity program, thereby reducing the negative deficit. Lastly, the loss of key financial personnel in 2017 created a void in program budget monitoring and control, which further impacted the net asset deficit.

Effect

Continued deficit in net assets could result in the ability of **Firstline** to continue as a viable entity.

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 net asset deficits, we recommend that **Firstline** develop a written plan to eliminate the significant net asset deficit of the Network Activity program within the next five (5) years to improve the combined financial position of **Firstline**.

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-005 Credit Card Charges

Finding Classification

Significant deficiency

Finding Type

Credit card usage/travel

Finding Title

Credit card charges

Resolution (Resolved/Not Resolved/Partially Resolved)

Not resolved

Number of Years Finding Reported

2017

Financial Impact of Finding

Greater than $150,000

Resolution is With or Without Cause

With cause

Section II - FINANCIAL STATEMENT FINDINGS, CONTINUED

2017-005 Credit Card Charges, Continued

Criteria

Records should be maintained for all charges in a manner that permits the verification of balances and support with amounts reported in accordance with the established policies and procedures.

Condition

Based on our tests of credit card charges, we noted the following:

- one hundred forty-three (143) of the eight hundred forty-six (846) charges tested were not supported by an itemized receipt;
- one hundred sixty-three (163) of the eight hundred forty-six (846) charges tested did not have documentation of the business purpose; and
- two hundred fifty-three (253) of the eight hundred forty-six (846) charges tested did not have other documentation required by **FirstLine's** policies (i.e., purchase order, written pre-authorization).

Cause

FirstLine did not adhere to credit card policies and procedures.

Effect

Unauthorized/nonbusiness credit card charges may occur with weak internal controls over credit card charges without timely detections.

Recommendation

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

FIRSTLINE SCHOOLS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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

No matters reported.

SECTION II - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

No matters reported.

SECTION III - MANAGEMENT LETTER

No matters reported.

FIRSTLINE SCHOOLS
EDUCATION FOR LIFE

April 30, 2018
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, 2017.

Corrective Action Plan
In Response to Findings Relating to the Financial Statements
Year Ended June 30, 2017

Section II- Financial Statement Findings

Finding 17-001 Financial Close and Reporting Process/Submission of Audit Report

Agency's Response:
Management, along with the Audit and Finance Committees, will review and appropriately revise the current financial reporting procedures to ensure timely completion of audit engagements. Firstline Schools (FLS) will note that there were extenuating circumstances that delayed the completion of the report, including loss of key personnel with the vacancies of the Director of Finance and Grants Manager of the agency. These vacancies resulted in additional time scheduled for the preparation of audit work and getting the report completed. Management has since hired essential staff and taken corrective action by implementing procedures to ensure accuracy and reliability of financial statements through the monthly close and reconciliation process. FLS will create closing and audit timelines that will assist with the timely completion of future audit reports.

Finding 17-002 Documented Reviews and Approvals

Agency's Response:
FLS will ensure the supervisory review and approval of time and attendance records, bank statements and bank reconciliations as well as credit card statement review. Management is currently reviewing all documents, but will correct the process by which these approvals are documented. Management and the Board of Directors will implement internal control policies and procedures to address the review and approval of these activities.

FIRSTLINE SCHOOLS
EDUCATION FOR LIFE

Finding 2017-003 Requisition and/or Purchase Order System

Agency's Response:

FLS will ensure that all purchases are approved prior to processing requisitions and ensure that those purchases are properly received in the purchasing system or with a valid signature acknowledging receipt. Currently, all purchases are approved; however management will ensure that the purchase order system is used in all applicable instances.

Finding 2017-004- Unrestricted Net Asset Deficit- Network Activity

Agency's Response

Management has expanded capacity in the accounting and finance department to ensure effective fiscal oversight, resulting in enhanced budget control measures and timely financial reporting to Management and the Board of Directors. FLS has also modified its budget process to include more comprehensive and conservative budget projections to align with shifts in state and local funding and implementation of cost control measures to reduce overall spending. Staff will work with the Board of Directors to implement an appropriate financial sustainability plan that will result in the rebuilding of net assets across the Network activity program and the improvement of the overall financial position of FirstLine Schools.

Finding 2017-005 Requisition Credit Card Charges

Agency's Response:

Credit Card purchases are reviewed for business purpose and backup documentation during the monthly reconciliation process. Management and the Board of Directors will revisit the current credit card policy and procedure, make necessary changes needed to tighten internal controls in this area and ensure full implementation of the revised policy.

If you have any questions concerning this response, please contact Gizelle Johnson-Banks, Chief Financial Officer at (504) 267-9038.

Sincerely,

Jay Altman
CEO