

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

	Without Donor Restrictions	With Donor Restrictions	Total
<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
Total expenses	<u>\$ 27,296,060</u>	<u>\$ 19,257,770</u>	<u>\$ 46,553,830</u>

The accompanying notes are an integral 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>

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.

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

**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.

<u>Years Ending</u> <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>		
<i><u>Passed-Through: LA State Department of Education</u></i>		
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>		
<i><u>Passed-Through: LA State Department of Education</u></i>		
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>		
<i><u>Passed-Through: Recovery School District</u></i>		
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

<u>Federal Grantor/Program Name</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S Department of Homeland Security</u>		
<u><i>Awards from a Pass-Through Entity</i></u>		
Passed-Through: <u>Governor's Office of Homeland</u>		
<u>Security and Emergency Preparedness</u>		
FEMA Disaster Relief	97.036	\$ 241,269
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)	\$ 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	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	20,399	4,917	-	-	-	528,134
Due from other programs	-	1,800	-	-	-	295,342	(1,019,815)	-
Prepaid expenses	18,989	724,473	-	-	-	-	-	18,989
Property and equipment, net	191,617	253,900	51,363	236,258	-	33,710	-	808,683
Total assets	\$ 183,257	\$ 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	\$ 323,252	\$ 200,687	\$ 387,277	\$ 44,846	\$ 382,725	\$ -	\$ 1,667,268
Accrued liabilities	164,949	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	-	-	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	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)	2,354,185	(208,866)	1,285,950	(602,385)	1,718,489	-	1,691,252
Total net assets	(2,510,419)	2,354,185	(208,866)	1,285,950	(602,385)	1,718,489	-	1,691,252
Total liabilities and net assets	\$ 183,257	\$ 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

	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
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	5,057,577	2,427,417	4,903,256	2,800,766	5,270,307	550,263	4,551,505	(3,127,961)	22,433,130
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	15,486	2,000,456	3,337,960	2,217,221	3,365,136	367,824	3,207,607	-	14,511,690
Federal grants	110,375	1,279,985	2,340,415	1,137,952	2,027,745	163,365	2,660,506	-	9,720,343
Total revenues	5,183,438	5,707,858	10,581,631	6,155,939	10,663,188	1,081,452	10,419,618	(3,127,961)	46,665,163
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	6,179,866	6,258,341	9,817,370	6,236,442	9,977,508	1,336,230	9,876,034	(3,127,961)	46,553,830
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	(1,513,991)	204,781	1,589,924	(128,363)	600,270	(347,607)	1,174,905	-	1,579,919
Net assets, end of year	\$ (2,510,419)	\$ (345,702)	\$ 2,354,185	\$ (208,866)	\$ 1,285,950	\$ (602,385)	\$ 1,718,489	\$ -	\$ 1,691,252

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

	FirstLine Network Activity		Live Oak Charter School		Arthur Ashe Charter School	
	Instruction	Management and General	Instruction	Management and General	Instruction	Management and General
<u>EXPENSES</u>						
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	\$ 707,074	\$ 5,472,792	\$ 3,991,888	\$ 2,266,453	\$ 6,038,635	\$ 3,778,735

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

	Samuel J. Green Charter School		Phillis Wheatley Charter School		Joseph S. Clark Charter School	
	Instruction	Management and General	Instruction	Management and General	Instruction	Management and General
<u>EXPENSES</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	\$ 4,083,175	\$ 2,153,267	\$ 5,586,780	\$ 4,390,728	\$ 645,386	\$ 690,844

See Independent Auditors' Report on Supplementary Information

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

	Langston Hughes Academy Charter School		Eliminations	Grand Total	
	Instruction	Management and General		Instruction	Management and General
<u>EXPENSES</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	\$ 6,243,122	\$ 3,632,912	\$ (3,127,961)	\$ 27,296,060	\$ 19,257,770

See Independent Auditors' Report on Supplementary Information

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

SCHEDULE V

FirstLine Network Activity	Samuel J. Green Charter School	Arthur Ashe Charter School	Phillis Wheatley Charter School	Live Oak Charter School	Joseph S. Clark Charter School	Langston Hughes Academy Charter School	Total
\$ (996,428)	\$ (80,503)	\$ 764,261	\$ 685,680	\$ (550,483)	\$ (254,778)	\$ 543,584	\$ 111,333
6,283	21,102	73,773	86,487	4,352	-	36,764	228,761
(18,989)	-	-	-	-	-	-	(18,989)
400,865	121,547	(150,102)	(137,660)	(290,198)	388,989	(564,696)	(231,255)
244,708	520	3,976	7,495	-	(116,923)	1,198	140,974
4,854	3,661	-	4,727	(46,067)	-	-	(32,825)
-	-	63,249	-	-	-	380,460	443,709
(78,244)	(178,922)	(111,815)	(56,350)	92,443	(72,211)	(134,074)	(539,173)
160,481	(4,993)	(6,374)	(9,520)	259,824	(19,649)	(9,165)	370,604
759,135	-	-	-	-	-	-	759,135
(595,949)	106,252	-	(54,425)	111,937	(11,524)	-	(443,709)
(113,284)	(11,356)	636,968	526,434	(418,192)	(86,096)	254,071	788,565
-	(13,290)	-	-	(46,187)	-	-	(59,477)
-	(13,290)	-	-	(46,187)	-	-	(59,477)
918,000	13,792	-	-	47,789	-	-	979,581
(918,000)	-	-	-	-	-	-	(918,000)
-	13,792	-	-	47,789	-	-	61,581
(113,284)	(10,834)	636,968	526,434	(416,590)	(86,096)	254,071	790,669
(1,002,041)	83,131	830,192	1,125,703	239,159	(597,431)	671,088	1,349,801
\$ (1,115,325)	\$ 72,297	\$ 1,467,160	\$ 1,652,137	\$ (177,431)	\$ (683,527)	\$ 925,159	\$ 2,140,470

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:
Depreciation expense
Changes in assets and liabilities:
Increase in prepaid expense
(Increase) decrease in grants receivable
(Increase) decrease in other receivables
(Increase) decrease in other assets
(Increase) decrease in due from other programs
Increase (decrease) in accounts payable
Increase (decrease) in accrued liabilities
Increase in funds held on behalf of others
Increase (decrease) in due to other programs
Net cash provided by (used in) operating activities

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment
Net cash used in investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from borrowings
Payment on note payable
Net cash provided by financing activities
Increase (decrease) in cash and cash equivalents
Cash and cash equivalents, beginning of year
Cash and cash equivalents, end of year

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



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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.