

FAMILY LIFE ACADEMY CHARTER SCHOOLS

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2015

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Family Life Academy Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Family Life Academy Charter Schools (the "Organization"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, 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.

Auditor's 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the Organization'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 Organization'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 Family Life Academy Charter Schools as of June 30, 2015, 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.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2015 on our consideration of Family Life Academy Charter Schools' 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 Family Life Academy Charter Schools' internal control over other financial reporting and compliance.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 15, 2015

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

ASSETS

CURRENT ASSETS

Cash	\$ 292,192
Cash in escrow	177,056
Grants and other receivables	257,483
Prepaid expenses and other current assets	53,092
TOTAL CURRENT ASSETS	<u>779,823</u>

OTHER ASSETS

Property and equipment, net	1,199,193
Security deposits	272,253
Due from related parties	761,279
Investment in joint venture	330,758
	<u>2,563,483</u>

TOTAL ASSETS \$ 3,343,306

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of long-term debt	\$ 34,171
Accounts payable and accrued expenses	432,582
Accrued payroll and benefits	709,704
Vacation accrual	285,010
Deferred revenue	113,872
TOTAL CURRENT LIABILITIES	<u>1,575,339</u>

OTHER LIABILITIES

Long-term debt	201,740
Deferred lease incentive	100,000
Deferred rent payable	389,930
	<u>691,670</u>

NET ASSETS

Unrestricted	1,051,047
Temporarily restricted	25,250
	<u>1,076,297</u>

TOTAL LIABILITIES AND NET ASSETS \$ 3,343,306

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily restricted	Total
Operating revenue and support:			
State and local per pupil operating revenue	\$ 11,158,836	\$ -	\$ 11,158,836
Federal grants	1,632,782	-	1,632,782
State and local grants	638,595	-	638,595
Individuals and corporations	68,801	20,250	89,051
Contributed services	20,620	-	20,620
Fundraising	6,880	-	6,880
Interest income	2,501	-	2,501
Other income	28,541	-	28,541
	13,557,556	20,250	13,577,806
 Net assets released from restriction	 12,000	 (12,000)	 -
TOTAL OPERATING REVENUE AND SUPPORT	13,569,556	8,250	13,577,806
 Expenses:			
Program:			
Regular education	10,588,340	-	10,588,340
Special education	966,206	-	966,206
Management and general	1,658,271	-	1,658,271
Fundraising and special events	106,445	-	106,445
TOTAL EXPENSES	13,319,262	-	13,319,262
INCOME FROM JOINT VENTURE	258,583	-	258,583
CHANGE IN NET ASSETS	508,877	8,250	517,127
Net assets at beginning of year	710,720	17,000	727,720
Transfer of deficiency in net assets from merger of FLACS II	(168,550)	-	(168,550)
NET ASSETS AT END OF YEAR	\$ 1,051,047	\$ 25,250	\$ 1,076,297

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015

	Program Services			Supporting Services			Total
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel services costs:							
Administrative staff personnel	\$ 1,388,898	\$ 30,913	\$ 1,419,811	\$ 576,524	\$ 93,000	\$ 669,524	\$ 2,089,335
Instructional personnel	3,794,415	389,700	4,184,115	7,548	-	7,548	4,191,663
Non-instructional personnel	467,519	16,193	483,712	34,747	-	34,747	518,459
Total personnel services costs	5,650,832	436,806	6,087,638	618,819	93,000	711,819	6,799,457
Payroll taxes and fringe benefits	918,009	86,329	1,004,338	116,252	-	116,252	1,120,590
Retirement	55,762	4,383	60,145	5,263	-	5,263	65,408
Accounting and audit services	-	-	-	323,574	-	323,574	323,574
Other purchased / professional / consulting services	343,398	36,318	379,716	96,591	-	96,591	476,307
Building and land rent / lease	1,533,585	177,421	1,711,006	262,268	-	262,268	1,973,274
Repairs and maintenance	155,305	17,186	172,491	19,690	-	19,690	192,181
Insurance	56,482	6,368	62,850	7,989	-	7,989	70,839
Utilities	217,875	25,690	243,565	33,973	-	33,973	277,538
Supplies and materials	487,688	51,604	539,292	-	13,445	13,445	552,737
Equipment and furnishings	34,811	3,607	38,418	916	-	916	39,334
Staff development	151,396	14,088	165,484	5	-	5	165,489
Marketing and recruitment	12,227	1,178	13,405	1,845	-	1,845	15,250
Technology	85,197	9,531	94,728	11,845	-	11,845	106,573
Food services	431,709	45,750	477,459	-	-	-	477,459
Office expense	131,134	15,004	146,138	69,274	-	69,274	215,412
Depreciation and amortization	309,908	34,943	344,851	43,739	-	43,739	388,590
Miscellaneous	13,022	-	13,022	46,228	-	46,228	59,250
	\$ 10,588,340	\$ 966,206	\$ 11,554,546	\$ 1,658,271	\$ 106,445	\$ 1,764,716	\$ 13,319,262

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 517,127
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation and amortization	388,590
Income from joint venture	(258,583)
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	343,559
Prepaid expenses and other current assets	28,586
Security deposits	(132,877)
Accounts payable and accrued expenses	2,651
Accrued payroll and benefits	(1,842)
Vacation accrual	13,328
Deferred revenue	14,331
Deferred lease incentive	100,000
Deferred rent payable	156,517
	<hr/>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,171,387

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	(797,221)
Change in due from related parties	(427,024)
Change in cash in escrow	(75,460)
	<hr/>
NET CASH USED FOR INVESTING ACTIVITIES	(1,299,705)

CASH FLOWS - FINANCING ACTIVITIES

Repayments of long-term debt	(33,765)
	<hr/>
NET CASH USED FOR FINANCING ACTIVITIES	(33,765)

NET DECREASE IN CASH (162,083)

Cash at beginning of year

454,275
CASH AT END OF YEAR \$ 292,192

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

NON-CASH OPERATING AND INVESTING ACTIVITIES

Transfer of property and equipment to due from related parties	\$ <u>451,446</u>
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The accompanying notes are an integral part of the financial statements.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

Family Life Academy Charter Schools (the "Organization") is an educational corporation operating in the borough of the Bronx, New York and is comprised of various individual charter schools.

Family Life Academy Charter School I ("FLACS I") is a charter school that operates under the Organization in the borough of the Bronx, New York. On May 14, 2001, the Board of Regents of the University of the State of New York granted FLACS I a provisional charter valid for a term of five years and renewable upon expiration. On May 20, 2008 and August 19, 2013, FLACS I obtained a five year renewal, which currently expires June 30, 2018.

Family Life Academy Charter School II ("FLACS II") is a charter school that operates under the Organization in the borough of the Bronx, New York. On September 13, 2011, the Board of Regents of the University of the State of New York granted FLACS II a provisional charter valid for a term of five years and renewable upon expiration, which currently expires July 31, 2017.

On March 31, 2014, the Board of Regents of the University of the State of New York amended the FLACS I charter agreement permitting additional schools under FLACS I's educational corporation. During the 2014 fiscal year, FLACS I added Family Life Academy Charter School III ("FLACS III") under its expanded charter. FLACS III has the authority to operate through July 31, 2019.

FLACS I, FLACS II, and FLACS III are schools in a predominately Latino community in the South Bronx. They seek to empower New York City English language learners in grades Kindergarten through Grade 8 to achieve high standards in English and to help them take responsibility for their own learning, and encourage them to explore and affirm human values.

Family Life Academy Charter Schools Network ("FLACS N") is a division of the educational corporation operating as a charter school management organization. FLACS N's purpose is to manage and support a network of open-enrollment free college preparatory charter schools committed to high academic standards, merit, citizenship and responsibility in New York City's neediest neighborhoods.

FLACS II Merger

Effective July 1, 2014, FLACS II merged with FLACS I and FLACS III in accordance with the approval of the Organization's Board of Trustees and the Board of Regents of the University of the State of New York. At that time, the assets, liabilities, and net deficiency of FLACS II were transferred to the Organization. Total assets, liabilities, and deficiency in net assets of FLACS II were \$285,592, \$454,142, and \$(168,550), respectively, as of July 1, 2014. On the Statement of Cash Flows, balances at the beginning of the year have been restated to include the beginning balances of FLACS II.

Basis of presentation

The accompanying financial statements include the accounts of FLACS I, FLACS II, FLACS III, and FLACS N (collectively referred to as the "Organization"). All intercompany balances and transactions have been eliminated in the accompanying financial statements.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Financial Statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets at June 30, 2015.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets at June 30, 2015 are restricted for the purchase of certain equipment and for various programs at the Organization.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Organization's operations in accordance with the guidelines established by the Organization. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Organization's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Organization when qualifying expenditures are incurred and billable.

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Cash

Cash balances are maintained in certain financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Organization maintains cash in an escrow account, in accordance with the terms of its Charter Agreement. A portion of the escrow account is invested in a certificate of deposit with a maturity date of May 2016.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2015.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from two to ten years.

Deferred revenue

The Organization records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Investment in joint venture

The Organization has an investment in a not-for-profit joint venture which is accounted for under the equity method of accounting (see Note J for details).

Tax exempt status

The Organization is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Organization has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Organization files Form 990 in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2015, the Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years ended before June 30, 2012. Years ended June 30, 2012 through June 30, 2015 are still subject to potential audit by the IRS. Management of the Organization believes they have no material uncertain tax positions and, accordingly, will not recognize any liability for unrecognized tax benefits.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Contributed services

The Organization receives contributed services from volunteers to serve on the Board of Trustees. In addition the Organization received transportation services, special education services and a school nurse for the students from the local district. These services are not valued in the financial statements.

The Organization received contributed legal, branding and marketing services which were valued at \$20,620 for the year ended June 30, 2015. These amounts are included in contributed services in the accompanying statement of activities and changes in net assets.

Marketing costs

The Organization expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$15,000 for the year ended June 30, 2015.

Use of estimates in the preparation of financial statements

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 15, 2015, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except for as disclosed in Note G.

NOTE B: RELATED PARTY TRANSACTIONS

FLACS N receives a management allocation from FLACS I, FLACS II, and FLACS III (the "Charter Schools"). The Organization pays for certain operating expenses that benefit the entire organization and then allocates to each Charter School a percentage of these expenses based on the full time equivalent student enrollment at each Charter School. FLACS N was allocated \$1,290,278 from FLACS I, \$562,572 from FLACS II, and \$282,686 from FLACS III for the year ended June 30, 2015, respectively.

Classrooms and office facilities of FLACS I are leased from LPAC, whose President is a member of the Board of the Organization. See Note F for further details and future minimum lease payments. During the year ended June 30, 2015, the Organization had approximately \$74,000 of receivables from LPAC.

During 2013 the Organization and LPAC entered into a joint venture to purchase a building. See Note J for further information.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2015 consist of the following:

Leasehold improvements	\$ 2,508,404
Furniture and fixtures	683,235
Computers and equipment	<u>734,476</u>
	3,926,115
Less accumulated depreciation and amortization	<u>2,726,922</u>
	<u>\$ 1,199,193</u>

At June 30, 2015, approximately \$219,520 of construction in progress is included in leasehold improvements; which is mainly for improvements to the FLACS III facility expected to be utilized in the 2017 school year. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. The construction of the FLACS III facility is being handled by CG Education Holding Corporation. See Note J.

Total depreciation and amortization expense was \$388,590 for the year ended June 30, 2015.

NOTE D: LONG-TERM DEBT

Long-term debt at June 30, 2015 consists of the following:

Note payable for equipment owned by affiliate, CG Educational Holding Corporation ("CG"). Note requires monthly payments of \$4,477 including interest at 8.87% through January 2021. The note is secured by the related equipment, which is owned by CG.	\$ 235,911
Less current portion of long-term debt	<u>34,171</u>
	<u>\$ 201,740</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE D: LONG-TERM DEBT, Cont'd

Minimum future principal payments for long-term debt arrangements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 34,171
2017	37,328
2018	40,776
2019	44,543
2020	48,658
Thereafter	<u>30,435</u>
	<u>\$ 235,911</u>

In 2014, the Organization advanced CG the funds to purchase the equipment noted above and, therefore, recorded a receivable from CG for the amount advanced. The balance of the receivable at June 30, 2015 was \$235,911 and is included in due from related parties on the accompanying statement of financial position.

NOTE E: OPERATING LEASES

The Organization leases office equipment under non-cancelable lease agreements expiring at various dates through September 2019. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 60,348
2017	45,420
2018	45,420
2019	45,420
2020	<u>11,355</u>
	<u>\$ 207,963</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE F: SCHOOL FACILITY

FLACS I leases classrooms and office facilities under a non-cancelable lease agreement expiring in June 2018. FLACS I's base rent for the year ended June 30, 2015 was \$720,000 per annum and the base rent increases in accordance with the lease agreement. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent payable" in the accompanying statement of financial position at June 30, 2015. Rent expense relative to this lease was \$733,090 for the year ended June 30, 2015. In conjunction with this facility lease, FLACS I paid a security deposit of \$89,376, which is included in security deposits on the accompanying statement of financial position at June 30, 2015.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 720,000
2017	741,600
2018	<u>763,848</u>
	<u>\$ 2,225,448</u>

FLACS II leases classrooms and office facilities under a non-cancelable lease agreement expiring in June 2038 which they assumed from their former landlord effective January 2015. FLACS II's base rent for the year ended June 30, 2015 was \$487,148 per annum and the base rent will increase in accordance with the lease agreement. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent payable" in the accompanying statement of financial position at June 30, 2015. Rent expense relative to this lease was \$643,477 for the year ended June 30, 2015. In connection with the assumption of this lease, the former landlord agreed to share in the cost of FLACS II making certain leasehold improvements to the building in accordance with the terms of the agreement. \$100,000 had been advanced to FLACS II and is included in deferred lease incentive on the accompanying statement of financial position at June 30, 2015. Also in conjunction with this facility lease, FLACS II paid a security deposit of \$140,877, which is included in security deposits on the accompanying statement of financial position at June 30, 2015.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE F: SCHOOL FACILITY, Cont'd

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 506,634
2017	526,899
2018	547,975
2019	569,894
2020	592,690
Thereafter	<u>15,807,765</u>
	<u>\$ 18,551,857</u>

FLACS III leases classrooms and office facilities under a non-cancelable lease agreement expiring in June 2019. FLACS III's base rent for the year ended June 30, 2015 was \$504,000 per annum and the base rent will increase in accordance with the lease agreement. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent payable" in the accompanying statement of financial position at June 30, 2015. Rent expense relative to this lease was \$491,098 for the year ended June 30, 2015. In conjunction with this facility lease, FLACS III paid a security deposit of \$42,000, which is included in security deposits on the accompanying statement of financial position at June 30, 2015.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 519,120
2017	534,693
2018	550,737
2019	<u>567,262</u>
	<u>\$ 2,171,812</u>

NOTE G: RETIREMENT PLAN

The Organization sponsors two separate 401(k) plans (the "Plans") for all eligible employees that are predominantly funded by employees' contributions. The Plans operated under FLACS I and FLACS II during the fiscal year, although all employees were participants. The Organization matches employees' contributions up to 3% of their annual salary. During the year ended June 30, 2015, the Organization contributed approximately \$65,000 to the Plans. Effective July 1, 2015, the Organization merged its two 401(k) plans. The Organization continues to match employees' contributions up to 3% of their annual salary.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE H: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Organization. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE I: CONCENTRATIONS

At June 30, 2015, approximately 73% of grants and other receivables are due from the New York State Department of Education relating to certain grants.

During the year ended June 30, 2015, 82% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Organization's students are located.

NOTE J: JOINT VENTURE

On October 12, 2012, the Organization entered into a joint venture agreement with LPAC forming CG Educational Holding Corp., a 501(c)(25) nonprofit real property title holding corporation ("CG"). The Organization has a 50% beneficial interest in the joint venture. CG was formed for the purposes of owning, holding title and managing the rental of a property designated to be for FLACS III.

Following is a summary of the financial position and results of operations of the joint venture as of and for the year ended June 30, 2015:

Statement of Financial Position

Total assets	\$ 5,127,101
Total liabilities	4,465,587
Net assets	<u>661,514</u>
 FLACS share of net assets	 330,758

Statement of Activities

Revenue	\$ 524,525
Expenses	<u>8,377</u>
Change in net assets	516,148

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

NOTE J: JOINT VENTURE, Cont'd

On January 25, 2013, the joint venture purchased real property intended to be used by FLACS III. For the year ended June 30, 2015, FLACS III paid a total of \$504,000 for rental of the property to CG. The property was still being renovated and \$219,520 is classified as leasehold improvements in the accompanying statement of financial position at June 30, 2015.

As part of the initial purchase of the above-mentioned property, the Organization became a co-guarantor of two mortgages, one in the name of LPAC, and the other in the name of CG. The term of the guarantees is through January 2018, with an option to extend for an additional 5 years if certain requirements are met. The Organization would be required to pay the loans in the event of default and as of June 30, 2015, the outstanding balance of the mortgage notes was approximately \$4,510,000. At June 30, 2015, the maximum amount of future payments (undiscounted) the Organization could be required to make under the guarantees was approximately \$5,120,000.

As part of the renovations that were made to the property during fiscal year 2014, the Organization became a co-guarantor of additional monies borrowed by CG. The term of the guarantee is through November 2020. The Organization would be required to pay the loans in the event of default and as of June 30, 2015, the outstanding balance on the mortgage note was approximately \$675,000. At June 30, 2015, the maximum amount of future payments (undiscounted) the Organization could be required to make under the guarantee is approximately \$760,000.

In August 2014, the Organization was named a co-guarantor on a second mortgage entered into by CG. The term of the guarantee is through August 31, 2016. The Organization would be required to pay the loan in the event of default and as of June 30, 2015, the outstanding balance on the mortgage note was \$337,500. The maximum amount of future payments (undiscounted) the Organization could be required to make under the guarantee is approximately \$390,000.

At this time, the Organization fully expects that all of the above debt obligations will be repaid by the related parties in accordance with their terms. The Organization has not recognized a liability for these guarantees.

During 2014, the Organization purchased \$451,446 of leasehold improvements for the FLACS III facility. During 2015, it was determined that CG was going to capitalize these assets on their financial statements; therefore, these assets were transferred to due from related party on the accompanying Statement of Financial Position. The Organization expects to fully collect this receivable.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

OTHER FINANCIAL INFORMATION



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Family Life Academy Charter Schools

We have audited the financial statements of Family Life Academy Charter Schools as of and for the year ended June 30, 2015, and have issued our report thereon dated October 15, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information hereinafter is presented for purposes of additional analysis and is 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 for the year ended June 30, 2015, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 15, 2015

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2015

<u>ASSETS</u>	Family Life Academy Charter School I	Family Life Academy Charter School II	Family Life Academy Charter School III	Family Life Academy Charter School Network	Eliminations	Total
<u>CURRENT ASSETS</u>						
Cash	\$ 119,231	\$ 56,712	\$ 52,409	\$ 63,840	\$ -	\$ 292,192
Cash in escrow	76,989	100,067	-	-	-	177,056
Grants and other receivables	187,822	55,018	14,643	-	-	257,483
Interschool receivables	1,200,891	-	-	169,601	(1,370,492)	-
Prepaid expenses and other current assets	51,898	1,194	-	-	-	53,092
TOTAL CURRENT ASSETS	1,636,831	212,991	67,052	233,441	(1,370,492)	779,823
<u>OTHER ASSETS</u>						
Property and equipment, net	408,631	418,475	368,449	3,638	-	1,199,193
Security deposits	89,376	140,877	42,000	-	-	272,253
Due from related parties	309,833	-	451,446	-	-	761,279
Investment in joint venture	330,758	-	-	-	-	330,758
	1,138,598	559,352	861,895	3,638	-	2,563,483
TOTAL ASSETS	\$ 2,775,429	\$ 772,343	\$ 928,947	\$ 237,079	\$ (1,370,492)	\$ 3,343,306

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2015

<u>LIABILITIES AND NET ASSETS (DEFICIENCY)</u>	<u>Family Life Academy Charter School I</u>	<u>Family Life Academy Charter School II</u>	<u>Family Life Academy Charter School III</u>	<u>Family Life Academy Charter School Network</u>	<u>Eliminations</u>	<u>Total</u>
<u>CURRENT LIABILITIES</u>						
Current portion of long-term debt	\$ 34,171	\$ -	\$ -	\$ -	\$ -	\$ 34,171
Accounts payable and accrued expenses	196,773	110,745	32,504	92,560	-	432,582
Interschool payables	-	337,913	1,032,579	-	(1,370,492)	-
Accrued payroll and benefits	427,144	152,632	75,145	54,783	-	709,704
Vacation accrual	142,682	45,247	21,596	75,485	-	285,010
Deferred revenue	16,234	-	97,638	-	-	113,872
TOTAL CURRENT LIABILITIES	<u>817,004</u>	<u>646,537</u>	<u>1,259,462</u>	<u>222,828</u>	<u>(1,370,492)</u>	<u>1,575,339</u>
<u>OTHER LIABILITIES</u>						
Long-term debt	201,740	-	-	-	-	201,740
Deferred lease incentive	-	100,000	-	-	-	100,000
Deferred rent payable	26,180	156,329	207,421	-	-	389,930
	<u>227,920</u>	<u>256,329</u>	<u>207,421</u>	<u>-</u>	<u>-</u>	<u>691,670</u>
<u>NET ASSETS (DEFICIENCY)</u>						
Unrestricted	1,705,255	(130,523)	(537,936)	14,251	-	1,051,047
Temporarily restricted	25,250	-	-	-	-	25,250
	<u>1,730,505</u>	<u>(130,523)</u>	<u>(537,936)</u>	<u>14,251</u>	<u>-</u>	<u>1,076,297</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	<u>\$ 2,775,429</u>	<u>\$ 772,343</u>	<u>\$ 928,947</u>	<u>\$ 237,079</u>	<u>\$ (1,370,492)</u>	<u>\$ 3,343,306</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER
YEAR ENDED JUNE 30, 2015

	Family Life Academy Charter School I	Family Life Academy Charter School II	Family Life Academy Charter School III	Family Life Academy Charter School Network	Eliminations	Total
Operating revenue and support:						
State and local per pupil						
operating revenue	\$ 6,953,727	\$ 2,964,132	\$ 1,240,977	\$ -	\$ -	\$ 11,158,836
Federal grants	846,195	323,395	463,192	-	-	1,632,782
State and local grants	367,778	225,437	45,380	-	-	638,595
Individuals and corporations	78,051	11,000	-	-	-	89,051
Contributed services	20,620	-	-	-	-	20,620
Management fee income	-	-	-	2,135,536	(2,135,536)	-
Fundraising	-	2,350	-	4,530	-	6,880
Interest income	1,859	505	125	12	-	2,501
Other income	28,536	-	-	5	-	28,541
TOTAL OPERATING REVENUE						
AND SUPPORT	8,296,766	3,526,819	1,749,674	2,140,083	(2,135,536)	13,577,806
Expenses:						
Program:						
Regular education	6,542,164	2,541,555	1,665,974	1,541,864	(1,703,217)	10,588,340
Special education	684,371	354,386	118,799	-	(191,350)	966,206
Management and general	481,947	592,851	253,919	570,523	(240,969)	1,658,271
Fundraising and special events	93,000	-	-	13,445	-	106,445
TOTAL EXPENSES	7,801,482	3,488,792	2,038,692	2,125,832	(2,135,536)	13,319,262
INCOME FROM JOINT VENTURE	258,583	-	-	-	-	258,583
CHANGE IN NET ASSETS	753,867	38,027	(289,018)	14,251	-	517,127
Net assets (deficiency) at						
beginning of year	976,638	(168,550)	(248,918)	-	-	559,170
NET ASSETS (DEFICIENCY)						
AT END OF YEAR	<u>\$ 1,730,505</u>	<u>\$ (130,523)</u>	<u>\$ (537,936)</u>	<u>\$ 14,251</u>	<u>\$ -</u>	<u>\$ 1,076,297</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS

BRONX, NEW YORK

**SCHEDULES REQUIRED BY GOVERNMENT
AUDITING STANDARDS AND OMB CIRCULAR A-133**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2015

M|M|B

MENGEL METZGER BARR & CO. LLP

Certified Public Accountants.

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S 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

Board of Trustees
Family Life Academy Charter Schools

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 Family Life Academy Charter Schools, which comprise the statement of financial position as of June 30, 2015 and the related statements of activities and changes in net assets, 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 October 15, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Family Life Academy Charter Schools' 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 Family Life Academy Charter Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Family Life Academy Charter Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 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. We consider the deficiency 2015-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Life Academy Charter Schools' financial statements are free of 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 is required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of Family Life Academy Charter Schools in a separate letter dated October 15, 2015.

Family Life Academy Charter Schools' Response to Finding

Family Life Academy Charter Schools' response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. Family Life Academy Charter Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 15, 2015



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
Family Life Academy Charter Schools

Report on Compliance for Each Major Federal Program

We have audited Family Life Academy Charter Schools' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Family Life Academy Charter Schools' major federal programs for the year ended June 30, 2015. Family Life Academy Charter Schools' major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Family Life Academy Charter Schools' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Family Life Academy Charter Schools' 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 Family Life Academy Charter Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Family Life Academy Charter Schools 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, 2015.

Report on Internal Control over Compliance

Management of Family Life Academy Charter Schools 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 Family Life Academy Charter Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Family Life Academy Charter Schools' 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Family Life Academy Charter Schools as of and for the year ended June 30, 2015, and have issued our report thereon dated October 15, 2015, which contained an unmodified opinion on those financial statements. 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 OMB Circular A-133 and is 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 15, 2015

FAMILY LIFE ACADEMY CHARTER SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

	Federal CFDA Number	Pass-through Grantor's Number	Total Federal Expenditures
U.S. Department of Education:			
<u>Passed through NYS Department of Education</u>			
Title I - Grants to Local Educational Agencies	84.010	0021	\$ 465,409
Title IIA - Improving Teacher Quality	84.367	0147	21,129
Title III, Part A - English Language Acquisition Grants	84.365	0293	144,263
Charter School Program - Non-State Educational Agencies (Non-SEA) Dissemination Grant	84.282C	0089	198,684
Charter School Program - State Educational Agencies (SEA) Grant	84.282A	0089	324,053
TOTAL DEPARTMENT OF EDUCATION			1,153,538
U.S. Department of Agriculture:			
<u>Passed through NYS Department of Education</u>			
School Breakfast Program	10.553	1000001406	99,335
National School Lunch Program	10.555	1000001406	379,909
TOTAL DEPARTMENT OF AGRICULTURE			479,244
TOTAL ALL PROGRAMS			\$ 1,632,782

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of federal awards includes the federal grant activity of Family Life Academy Charter Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

FAMILY LIFE ACADEMY CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness (es) identified?	<u> x </u>	yes	<u> </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u>	yes	<u> x </u> none reported
Noncompliance material to financial statements noted?	<u> </u>	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness (es) identified?	<u> </u>	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u>	yes	<u> x </u> none reported

Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u> </u>	yes	<u> x </u> no

Identification of major program:

CFDA Number:

84.010
84.367
84.365

84.282C

84.282A

10.553
10.555

Name of Federal Program or Cluster:

Title I - Grants to Local Educational Agencies
Title IIA - Improving Teacher Quality
Title III, Part A - English Language Acquisition Grants

Charter School Program - Non-State Educational Agencies (Non-SEA) Dissemination Grant
Charter School Program - State Educational Agencies (SEA) Grant

School Breakfast Program
National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs:	<u> \$300,000 </u>		
Auditee qualified as low-risk auditee?	<u> </u>	yes	<u> x </u> no

FAMILY LIFE ACADEMY CHARTER SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONT'D

YEAR ENDED JUNE 30, 2015

FINDING – FINANCIAL STATEMENT AUDIT

Finding 2015-001

Statement of condition

Material auditor adjustments were necessary.

Criteria and effect of conditions

During our audit we noted one instance where a loan agreement was still not properly included in debt and related party receivables. This resulted in an approximately \$270,000 entry to beginning net assets in order to agree to the prior year audited financial statements. We also noted certain current year activity was not properly reconciled relative to investment in joint venture and deferred rent payable.

Recommendation

We recommend that any transaction occurring at an affiliated entity with which the Organization has an economic interest be properly followed up on and reconciled to the affiliate as transactions occur. Furthermore, we recommend that any significant transactions be properly documented, including information on the intended beneficiary or obligor, the explicit beneficiary or obligor, as well as proper approval and recusal where necessary.

Management Response

Management is in full accord with the recommendation and will hereafter ensure that the books and records of all affiliated entities i.e. CG Education are balanced to FLACS records as well as ensure that all current year activity is properly reconciled.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONT'D

YEAR ENDED JUNE 30, 2015

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

MAJOR FEDERAL AWARDS PROGRAMS

Finding 2014-004

CSP Grants for the Initial Implementation and Planning of Charter Schools, CFDA Number 84.282A, Award Number 0089, Department of Education

Statement of condition

The Charter School misstated the amounts of funds to be expended in the following 30 days on FS-25 forms filed with respect to the Charter School Program ("CSP") grant awarded to the Charter School to be in accordance with the United States Department of Education General Administrative Regulations (EDGAR) Parts 74 and 80.

Criteria and effect of conditions

For the period from the initial advance of CSP funds to June 30, 2014, the Charter School filed one FS-25 Form with the New York State Education Department. Each FS-25 form allows the Charter School to request an advance of funds to be spent within 30 days on Line 4 of the form. Our audit procedures found that funds requested in advance were not fully utilized within 30 days of the filed Forms FS-25.

Recommendation

The Charter School should only request reimbursements from CSP after the expense has been incurred, or within 30 days prior to the expenditure.

Management Response

Management agrees with the recommendation that reimbursements from any federal grant through the form FS-25 process be requested either after the expense has been incurred or within 30 days prior to the expenditure.

Current Status

During our 2015 audit, we noted no issues with the CSP Implementation Grant (CFDA Number 84.282A) Line 4 of the FS-25's filed. However, we tested the same requirement for the CSP Dissemination Grant (CFDA Number 84.282C). During our testing of the six FS-25 forms filed from the initial advance of CSP funds to June 30, 2015, we found two had immaterial instances where funds requested in advance were not fully utilized within 30 days of the filed form. We do not believe this issue to be a material weakness in internal control over compliance.