

FAMILY LIFE ACADEMY CHARTER SCHOOL

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2014

(With Comparative Totals for 2013)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Family Life Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Family Life Academy Charter School (the "Organization"), which comprise the statement of financial position as of June 30, 2014, 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 School as of June 30, 2014, 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.

Report on Summarized Comparative Information

We have previously audited Family Life Academy Charter School's June 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2013. In our opinion, the summarized comparative information presented herein as of June 30, 2013 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014 on our consideration of Family Life Academy Charter School'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 Family Life Academy Charter School's internal control over other financial reporting and compliance.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 28, 2014

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

(With Comparative Totals for 2013)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 397,907	\$ 958,957
Cash in escrow	76,567	75,978
Grants and other receivables	118,593	289,706
Due from related parties	334,255	-
Due from Family Life Academy Charter School II	148,992	-
Prepaid expenses and other current assets	79,092	54,292
Security deposits	89,376	89,376
TOTAL CURRENT ASSETS	<u>1,244,782</u>	<u>1,468,309</u>
<u>PROPERTY AND EQUIPMENT, net</u>	<u>1,121,402</u>	<u>704,858</u>
<u>INVESTMENT IN JOINT VENTURE</u>	<u>72,175</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 2,438,359</u>	<u>\$ 2,173,167</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Current portion of long-term debt	\$ 33,765	\$ -
Accounts payable and accrued expenses	331,680	268,374
Accrued payroll and payroll taxes	569,027	522,524
Vacation accrual	211,022	186,538
Deferred revenue	95,821	-
Deferred rent payable	233,413	-
TOTAL CURRENT LIABILITIES	1,474,728	977,436
<u>LONG-TERM DEBT</u>	<u>235,911</u>	<u>-</u>
<u>NET ASSETS</u>		
Unrestricted	710,720	1,178,594
Temporarily restricted	17,000	17,137
	<u>727,720</u>	<u>1,195,731</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,438,359</u>	<u>\$ 2,173,167</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	
			<u>Year ended June 30,</u>	
			<u>2014</u>	<u>2013</u>
Operating revenue and support:				
State and local per pupil operating revenue	\$ 6,704,149	\$ -	\$ 6,704,149	\$ 6,428,171
Governmental grants	1,121,180	-	1,121,180	792,961
Individuals and corporations	100,867	10,000	110,867	157,253
Contributed services	26,650	-	26,650	70,000
Fundraising	7,181	-	7,181	7,826
Interest income	4,179	-	4,179	5,701
Other income	625	-	625	574
	<u>7,964,831</u>	<u>10,000</u>	<u>7,974,831</u>	<u>7,462,486</u>
 Net assets released from restriction	 <u>10,137</u>	 <u>(10,137)</u>	 <u>-</u>	 <u>-</u>
 TOTAL OPERATING REVENUE AND SUPPORT	 7,974,968	 (137)	 7,974,831	 7,462,486
 Expenses:				
Program:				
Regular education	6,371,885	-	6,371,885	5,587,498
Special education	652,755	-	652,755	717,642
Management and general	1,397,377	-	1,397,377	905,078
Fundraising and special events	93,000	-	93,000	94,951
TOTAL EXPENSES	<u>8,515,017</u>	<u>-</u>	<u>8,515,017</u>	<u>7,305,169</u>
 INCOME FROM JOINT VENTURE	 72,175	 -	 72,175	 -
 CHANGE IN NET ASSETS	 (467,874)	 (137)	 (468,011)	 157,317
 Net assets at beginning of year	 <u>1,178,594</u>	 <u>17,137</u>	 <u>1,195,731</u>	 <u>1,038,414</u>
NET ASSETS AT END OF YEAR	<u>\$ 710,720</u>	<u>\$ 17,000</u>	<u>\$ 727,720</u>	<u>\$ 1,195,731</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

	Year ended June 30,							2013
	2014							
	Program Services			Supporting Services				
Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Total	Total	
Personnel services costs:								
Administrative staff personnel	\$ 328,045	\$ 33,574	\$ 361,619	\$ 697,518	\$ 93,000	\$ 790,518	\$ 1,152,137	\$ 846,581
Instructional personnel	2,863,296	293,825	3,157,121	-	-	-	3,157,121	3,110,705
Non-instructional personnel	<u>343,093</u>	<u>35,207</u>	<u>378,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>378,300</u>	<u>356,942</u>
Total personnel services costs	3,534,434	362,606	3,897,040	697,518	93,000	790,518	4,687,558	4,314,228
Payroll taxes and fringe benefits	590,152	60,546	650,698	131,944	-	131,944	782,642	706,485
Retirement	48,611	4,988	53,599	10,825	-	10,825	64,424	56,128
Accounting and audit services	-	-	-	116,090	-	116,090	116,090	71,891
Other purchased / professional / consulting services	285,978	29,284	315,262	58,248	-	58,248	373,510	321,229
Building and land rent / lease	804,632	81,636	886,268	215,278	-	215,278	1,101,546	699,400
Repairs and maintenance	140,894	14,458	155,352	31,374	-	31,374	186,726	128,027
Insurance	28,066	2,880	30,946	6,249	-	6,249	37,195	36,432
Utilities	116,271	11,932	128,203	25,891	-	25,891	154,094	120,342
Supplies and materials	136,481	14,005	150,486	-	-	-	150,486	193,703
Equipment and furnishings	37,704	3,869	41,573	993	-	993	42,566	38,359
Staff development	68,983	7,079	76,062	-	-	-	76,062	55,838
Marketing and recruitment	26,750	2,736	29,486	4,971	-	4,971	34,457	4,165
Technology	49,011	5,029	54,040	10,913	-	10,913	64,953	47,531
Food services	197,310	20,247	217,557	-	-	-	217,557	190,780
Office expense	126,319	12,959	139,278	28,259	-	28,259	167,537	122,173
Depreciation and amortization	180,289	18,501	198,790	40,146	-	40,146	238,936	179,499
Miscellaneous	-	-	-	18,678	-	18,678	18,678	18,959
	<u>\$ 6,371,885</u>	<u>\$ 652,755</u>	<u>\$ 7,024,640</u>	<u>\$ 1,397,377</u>	<u>\$ 93,000</u>	<u>\$ 1,490,377</u>	<u>\$ 8,515,017</u>	<u>\$ 7,305,169</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

	<u>Year ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (468,011)	\$ 157,317
Adjustments to reconcile change in net assets to net cash (used for) provided from operating activities:		
Depreciation and amortization	238,936	179,499
Income from joint venture	(72,175)	-
Changes in certain assets and liabilities affecting operations:		
Cash in escrow	(589)	(691)
Grants and other receivables	171,113	(207,465)
Prepaid expenses and other current assets	(24,800)	45,843
Security deposits	-	(2,000)
Accounts payable and accrued expenses	63,306	166,117
Accrued payroll and payroll taxes	46,503	44,624
Vacation accrual	24,484	48,100
Deferred revenue	95,821	-
Deferred rent payable	233,413	(40,663)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	308,001	390,681
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(655,480)	(356,794)
Due from related parties	(334,255)	-
Due from Family Life Academy Charter School II	(148,992)	-
NET CASH USED FOR INVESTING ACTIVITIES	(1,138,727)	(356,794)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Borrowings on long-term debt	280,000	-
Repayments of long-term debt	(10,324)	-
NET CASH PROVIDED FROM FINANCING ACTIVITIES	269,676	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(561,050)	33,887
Cash and cash equivalents at beginning of year	958,957	925,070
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 397,907</u>	<u>\$ 958,957</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

Family Life Academy Charter School (“FLACS1”) is an educational corporation that operates as a charter school 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 FLACS1 a provisional charter valid for a term of five years and renewable upon expiration. On May 20, 2008 and August 19, 2013, FLACS1 obtained a five year renewal, which currently expires June 30, 2018.

On March 31, 2014, the Board of Regents of the University of the State of New York amended the FLACS1 charter agreement permitting additional schools under FLACS1’s educational corporation. During the 2014 fiscal year, FLACS1 added Family Life Academy Charter School III (“FLACS3”) under its expanded charter. FLACS1 and FLACS3 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.

Basis of presentation

The accompanying financial statements include the accounts of FLACS1 and FLACS3 (collectively referred to as the “Organization”). All intercompany balances and transactions have been eliminated in the accompanying financial statements.

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, 2014 or 2013.

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, 2014 and 2013 are restricted for the purchase of certain equipment and for various programs at the Organization.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014 AND 2013

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

Cont'd

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.

Cash and cash equivalents

Cash and cash equivalent balances are maintained in certain financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In the normal course of business, the cash and cash equivalent 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 and cash equivalents.

Cash in escrow

The Organization maintains cash in an escrow account, in accordance with the terms of its Charter Agreement. The escrow account is invested in a certificate of deposit with a maturity date of May 2015.

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, 2014 or 2013.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014 AND 2013

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

Cont'd

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 three to seven 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 K 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, 2014, the Organization is no longer subject to U.S. federal income tax examinations by tax authorities for years ended before June 30, 2011. Years ended June 30, 2011 through June 30, 2014 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.

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 branding and marketing services which were valued at \$26,650 for the year ended June 30, 2014. The Organization received contributed teacher enrichment services which were valued at \$70,000 for the year ended June 30, 2013. 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 \$34,000 and \$4,000 for the years ended June 30, 2014 and 2013, respectively.

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.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014 AND 2013

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

Cont'd

Reclassifications

Certain 2013 amounts have been reclassified to conform with 2014 presentation.

Comparatives for year ended June 30, 2013

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 28, 2014, 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 K and Note L.

NOTE B: DUE FROM FAMILY LIFE ACADEMY CHARTER SCHOOL II

Due to the merger as disclosed in Note L, the Organization and Family Life Academy Charter School II (FLACS2) have begun sharing certain expenses and have transferred dollars based on cash flow needs during the year ended June 30, 2014. The total amount due from FLACS2 at June 30, 2014 was \$148,992.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 2,429,710	\$ 1,816,416
Furniture and fixtures	502,543	482,748
Computers and equipment	<u>314,842</u>	<u>292,451</u>
	3,247,095	2,591,615
Less accumulated depreciation and amortization	<u>2,125,693</u>	<u>1,886,757</u>
	<u>\$ 1,121,402</u>	<u>\$ 704,858</u>

Total depreciation and amortization expense was \$238,936 and \$179,499 for the years ended June 30, 2014 and 2013, respectively. Leasehold improvements of \$549,741 relate to improvements to the FLACS3 facility and as of June 30, 2014 were not in service. As such, no depreciation was calculated for those improvements.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014 AND 2013

NOTE D: LONG-TERM DEBT

Long-term debt consists of the following:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
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.	\$ 269,676	\$ -
	<u>269,676</u>	<u>-</u>
Less current portion of long-term debt	<u>33,765</u>	<u>-</u>
	<u>\$ 235,911</u>	<u>\$ -</u>

Minimum future principal payments for the Organization's long-term debt arrangements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 33,765
2016	34,171
2017	37,328
2018	40,776
2019	44,543
Thereafter	<u>79,093</u>
	<u>\$ 269,676</u>

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, 2014 was \$269,676 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 a non-cancelable lease agreement expiring in March 2016. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 22,392
2016	<u>14,928</u>
	<u>\$ 37,320</u>

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014 AND 2013

NOTE F: SCHOOL FACILITY

FLACS1 leases classrooms and office facilities under a non-cancelable lease agreement expiring in June 2018. FLACS1's base rent for the year ended June 30, 2014 was \$720,000 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, 2014. Rent expense relative to this lease was \$722,972 and \$689,455 for the years ended June 30, 2014 and 2013, respectively.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 720,000
2016	720,000
2017	741,600
2018	<u>763,848</u>
	<u>\$ 2,945,448</u>

In conjunction with this facility lease, FLACS1 paid a security deposit of \$89,376, which is included in "Security deposits" on the accompanying statement of financial position at June 30, 2014 and 2013.

Effective October 1, 2013, FLACS3 entered into a non-cancelable lease agreement for classroom and office facilities expiring in June 2019. FLACS3's lease agreement contains a provision for a rent free period from October 1, 2013 through February 28, 2014, at which time rent increased to \$37,000 per month. This base rent then 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, 2014. Rent expense paid relative to this lease was \$148,000 for the year ended June 30, 2014.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 504,000
2016	519,120
2017	534,693
2018	550,737
2019	<u>567,262</u>
	<u>\$ 2,675,812</u>

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014 AND 2013

NOTE G: RETIREMENT PLAN

The Organization sponsors a 401(k) plan (the "Plan") for all eligible employees that is predominantly funded by employees' contributions. The Organization matches employees' contributions up to 3% of their annual salary. During the years ended June 30, 2014 and 2013, the Organization contributed approximately \$64,000 and \$56,000 to the Plan, respectively.

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, 2014 and 2013, approximately 88% and 73%, respectively of grants and other receivables are due from the New York State Department of Education relating to certain grants.

During the years ended June 30, 2014 and 2013, 84% and 86%, respectively 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: RELATED PARTY TRANSACTIONS

Classrooms and office facilities of the Organization are leased from LPAC, whose President is a member of the Board of the Organization. Total rent expense incurred under this agreement was \$722,972 and \$689,455 for the years ended June 30, 2014 and 2013, respectively. See Note E for future minimum lease payments. During the years ended June 30, 2014 and 2013, the Organization had approximately \$65,000 and \$31,000, respectively, of receivables from LPAC.

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014 AND 2013

NOTE K: JOINT VENTURE

On October 12, 2012, FLACS1 entered into a joint venture agreement with LPAC forming CG Educational Holding Corp., a 501(c)(25) nonprofit real property title holding corporation (“CG”). FLACS1 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 FLACS3.

Following is a summary of the unaudited financial position and results of operations of the joint venture as of and for the years ended June 30, 2014 and 2013:

	June 30,	
	2014	2013
	(Unaudited)	(Unaudited)
<u>Statement of Financial Position</u>		
Total assets	\$ 3,934,705	\$ 2,815,356
Total liabilities	3,790,356	2,815,356
Net assets	144,349	-
FLACS1 share of net assets	72,175	-
<u>Statement of Activities</u>		
Revenue	\$ 148,000	\$ -
Expenses	3,651	-
Change in net assets	144,349	-

On January 25, 2013, the joint venture purchased real property intended to be used by FLACS3. As of June 30, 2013, the acquired property was still being renovated and FLACS3 had not been formally established, therefore no rent was paid. For the year ended June 30, 2014, FLACS3 paid a total of \$148,000 for rental of the property to CG. The property was still being renovated and \$549,741 is classified as leasehold improvements in the accompanying statement of financial position at June 30, 2014.

As part of the initial purchase of the above-mentioned property, FLACS1 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. FLACS1 would be required to pay the loans in the event of default and as of June 30, 2014 and 2013, the outstanding balance of the mortgage notes was \$4,700,000. At June 30, 2014 and 2013, the maximum amount of future payments (undiscounted) that FLACS1 could be required to make under the guarantees was approximately \$5,498,000 and \$5,615,000, respectively.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014 AND 2013

NOTE K: JOINT VENTURE, Cont'd

As part of the renovations that were made to the property during fiscal year 2014, FLACS1 became a co-guarantor of additional monies borrowed by CG. The term of the guarantee is through November 2014, with an automatic extension for an additional 6 years. FLACS1 would be required to pay the loans in the event of default and as of June 30, 2014, the outstanding balance on the mortgage note was \$675,000. At June 30, 2014, the maximum amount of future payments (undiscounted) that FLACS1 could be required to make under the guarantee is approximately \$788,000.

On August 29, 2014, FLACS1 was named a co-guarantor on a second mortgage entered into by CG. The term of the guarantee is through August 31, 2015. FLACS1 would be required to pay the loan in the event of default. The maximum amount of future payments (undiscounted) that FLACS1 could be required to make under the guarantee is approximately \$377,000.

At this time, FLACS1 fully expects that all of the above debt obligations will be repaid by the related parties in accordance with their terms. FLACS1 has not recognized a liability for these guarantees.

NOTE L: MERGER

On April 15, 2013, the Charter Schools Committee of the State University of New York approved the merger of Family Life Academy Charter School, Family Life Academy Charter School II and Family Life Academy Charter School III. The merger became effective July 1, 2014.

FAMILY LIFE ACADEMY CHARTER SCHOOL

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Family Life Academy Charter School

We have audited the financial statements of Family Life Academy Charter School as of and for the year ended June 30, 2014, and have issued our report thereon dated October 28, 2014, 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 2014 information 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, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 28, 2014

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION BY SCHOOL LOCATION

JUNE 30, 2014

<u>ASSETS</u>	<u>Family Life Academy Charter School 1</u>	<u>Family Life Academy Charter School 3</u>	<u>Eliminations</u>	<u>Total</u>
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	\$ 397,907	\$ -	\$ -	\$ 397,907
Cash in escrow	76,567	-	-	76,567
Grants and other receivables	118,593	-	-	118,593
Due from related parties	1,055,431	289,912	(1,011,088)	334,255
Due from (to) Family Life Academy Charter School II	198,785	(49,793)	-	148,992
Prepaid expenses and other current assets	79,092	-	-	79,092
Security deposits	89,376	-	-	89,376
TOTAL CURRENT ASSETS	<u>2,015,751</u>	<u>240,119</u>	<u>(1,011,088)</u>	<u>1,244,782</u>
<u>PROPERTY AND EQUIPMENT, net</u>	<u>571,661</u>	<u>549,741</u>	<u>-</u>	<u>1,121,402</u>
<u>INVESTMENT IN JOINT VENTURE</u>	<u>72,175</u>	<u>-</u>	<u>-</u>	<u>72,175</u>
TOTAL ASSETS	<u>\$ 2,659,587</u>	<u>\$ 789,860</u>	<u>\$ (1,011,088)</u>	<u>\$ 2,438,359</u>
 <u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Current portion of long-term debt	\$ 33,765	\$ -	\$ -	\$ 33,765
Accounts payable and accrued expenses	330,222	1,458	-	331,680
Due to related parties	289,912	721,176	(1,011,088)	-
Accrued payroll and payroll taxes	569,027	-	-	569,027
Vacation accrual	211,022	-	-	211,022
Deferred revenue	-	95,821	-	95,821
Deferred rent payable	13,090	220,323	-	233,413
TOTAL CURRENT LIABILITIES	1,447,038	1,038,778	(1,011,088)	1,474,728
<u>LONG-TERM DEBT</u>	<u>235,911</u>	<u>-</u>	<u>-</u>	<u>235,911</u>
<u>NET ASSETS</u>				
Unrestricted	959,638	(248,918)	-	710,720
Temporarily restricted	17,000	-	-	17,000
	<u>976,638</u>	<u>(248,918)</u>	<u>-</u>	<u>727,720</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,659,587</u>	<u>\$ 789,860</u>	<u>\$ (1,011,088)</u>	<u>\$ 2,438,359</u>

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY SCHOOL LOCATION

JUNE 30, 2014

	Family Life Academy Charter School 1	Family Life Academy Charter School 3	Eliminations	Total
Operating revenue and support:				
State and local per pupil				
operating revenue	\$ 6,704,149	\$ -	\$ -	\$ 6,704,149
Governmental grants	927,089	194,091	-	1,121,180
Individuals and corporations	110,867	-	-	110,867
Contributed services	26,650	-	-	26,650
Fundraising	7,181	-	-	7,181
Interest income	4,179	-	-	4,179
Other income	625	-	-	625
TOTAL OPERATING REVENUE				
AND SUPPORT	7,780,740	194,091	-	7,974,831
 Expenses:				
Program:				
Regular education	6,072,392	299,493	-	6,371,885
Special education	623,135	29,620	-	652,755
Management and general	1,283,481	113,896	-	1,397,377
Fundraising and special events	93,000	-	-	93,000
TOTAL EXPENSES	8,072,008	443,009	-	8,515,017
 INCOME FROM JOINT VENTURE	72,175	-	-	72,175
 CHANGE IN NET ASSETS	(219,093)	(248,918)	-	(468,011)
 Net assets at beginning of year	1,195,731	-	-	1,195,731
NET ASSETS (DEFICIENCY)				
AT END OF YEAR	\$ 976,638	\$ (248,918)	\$ -	\$ 727,720