

FAMILY LIFE ACADEMY CHARTER SCHOOL

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2011

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Family Life Academy Charter School

We have audited the accompanying statement of financial position of Family Life Academy Charter School (the "Charter School") as of June 30, 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Charter School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note H, the Charter School has restated its beginning of year unrestricted net assets to reflect a change in liabilities at June 30, 2010 in accordance with accounting principles generally accepted in the United States of America. We have audited these adjustments and, in our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011 on our consideration of Family Life Academy Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 31, 2011

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 355,845
Certificate of deposit	442,087
Grants and other receivables	196,107
Prepaid expenses and other current assets	63,304
Security deposits	<u>106,981</u>
TOTAL CURRENT ASSETS	1,164,324

PROPERTY AND EQUIPMENT, net

503,209

TOTAL ASSETS \$ 1,667,533

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 530,643
Vacation accrual	122,066
Deferred revenue	34,696
Deferred rent payable	<u>81,327</u>
TOTAL CURRENT LIABILITIES	768,732

NET ASSETS

Unrestricted	888,801
Temporarily restricted	<u>10,000</u>
	<u>898,801</u>

TOTAL LIABILITIES AND NET ASSETS \$ 1,667,533

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, 2011

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenue and support:			
State and local per pupil			
operating revenue	\$ 5,410,087	\$ -	\$ 5,410,087
Governmental grants	829,674	-	829,674
Individuals and corporations	124,026	10,000	134,026
Fundraising	2,322	-	2,322
Interest income	23,984	-	23,984
Other income	335	-	335
	<u>6,390,428</u>	<u>10,000</u>	<u>6,400,428</u>
TOTAL OPERATING REVENUE AND SUPPORT	6,390,428	10,000	6,400,428
Expenses:			
Program:			
Regular education	4,011,610	-	4,011,610
Special education	981,867	-	981,867
Management and general	1,110,662	-	1,110,662
Fundraising	412	-	412
	<u>6,104,551</u>	<u>-</u>	<u>6,104,551</u>
TOTAL EXPENSES	6,104,551	-	6,104,551
CHANGE IN NET ASSETS	285,877	10,000	295,877
Net assets at beginning of year, as restated	602,924	-	602,924
NET ASSETS AT END OF YEAR	<u>\$ 888,801</u>	<u>\$ 10,000</u>	<u>\$ 898,801</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, 2011

	Program Services				Supporting Services			Total
	Regular Education	Special Education	Other Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel services costs:								
Administrative staff personnel	\$ 252,858	\$ 30,893	\$ -	\$ 283,751	\$ 662,086	\$ -	\$ 662,086	\$ 945,837
Instructional personnel	2,049,948	586,480	-	2,636,428	-	-	-	2,636,428
Non-instructional personnel	56,785	6,938	-	63,723	-	-	-	63,723
Total personnel services costs	2,359,591	624,311	-	2,983,902	662,086	-	662,086	3,645,988
Payroll taxes and fringe benefits	354,169	93,708	-	447,877	99,377	-	99,377	547,254
Retirement	25,396	6,719	-	32,115	7,126	-	7,126	39,241
Accounting and audit services	-	-	-	-	36,285	-	36,285	36,285
Other purchased / professional / consulting services	176,599	46,725	-	223,324	49,553	-	49,553	272,877
Building and land rent / lease	406,080	107,442	-	513,522	113,943	-	113,943	627,465
Repairs and maintenance	41,187	5,032	-	46,219	46,219	-	46,219	92,438
Insurance	16,778	4,439	-	21,217	4,708	-	4,708	25,925
Utilities	26,734	3,266	-	30,000	30,000	-	30,000	60,000
Supplies and materials	258,647	34,391	-	293,038	5,498	-	5,498	298,536
Equipment and furnishings	920	112	-	1,032	-	-	-	1,032
Staff development	47,203	5,767	-	52,970	5,125	-	5,125	58,095
Marketing and recruitment	9,035	2,391	-	11,426	2,535	-	2,535	13,961
Technology	17,751	4,697	-	22,448	4,980	-	4,980	27,428
Food services	181,952	22,230	-	204,182	-	-	-	204,182
Office expense	21,501	2,627	-	24,128	24,128	-	24,128	48,256
Depreciation and amortization	58,373	15,445	-	73,818	16,379	-	16,379	90,197
Miscellaneous	9,694	2,565	-	12,259	2,720	412	3,132	15,391
	<u>\$ 4,011,610</u>	<u>\$ 981,867</u>	<u>\$ -</u>	<u>\$ 4,993,477</u>	<u>\$ 1,110,662</u>	<u>\$ 412</u>	<u>\$ 1,111,074</u>	<u>\$ 6,104,551</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, 2011

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 295,877
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation and amortization	90,197
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	41,569
Prepaid expenses and other current assets	(13,505)
Security deposits	(60,000)
Accounts payable and accrued expenses	72,776
Vacation accrual	22,390
Deferred revenue	(14,424)
Deferred rent payable	(12,559)
	<hr/>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	422,321

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	(238,783)
Purchase of certificate of deposit	(22,105)
	<hr/>
NET CASH USED FOR INVESTING ACTIVITIES	(260,888)

NET INCREASE IN CASH AND CASH EQUIVALENTS 161,433

Cash and cash equivalents at beginning of year	<hr/>
	194,412
CASH AND CASH EQUIVALENTS AT END OF YEAR	<hr/> <hr/>
	\$ 355,845

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

The Charter School 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 the Charter School a provisional charter valid for a term of five years and renewable upon expiration. On May 19, 2008, the Charter School obtained a renewal through June 29, 2013. The Charter School, a bilingual/immersion school in a predominately Latino Community in the South Bronx, seeks to empower New York City English language learners in grades Kindergarten through Grade 8 to achieve high standards in both English and Spanish, help them take responsibility for their own learning, and encourage them to explore and affirm human values.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Charter School 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 Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2011.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. Temporarily restricted net assets at June 30, 2011 are restricted for the purchase of certain equipment.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School's operations in accordance with the guidelines established by the Charter School. 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 Charter School'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 Charter School when qualifying expenditures are incurred and billable.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

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

The Charter School maintains its cash balances in certain financial institutions located in New York. The Charter School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and certain money market account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. In addition, certain non-interest bearing transaction accounts at the financial institutions are 100% insured through December 31, 2012. In the normal course of business, the interest bearing account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

Certificate of deposit

Certificate of deposit represents a certificate of deposit with a maturity of nine months or less. In the normal course of business, the certificate of deposit balance at any given time may exceed insured limits. However, the Charter School has not experienced any losses in the account and does not believe it is exposed to significant risk in certificate of deposit.

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, 2011.

Property and equipment

Property and equipment are recorded at cost. Depreciation is 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.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Tax exempt status

The Charter School 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 Charter School has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2011, the Charter School is no longer subject to U.S. federal income tax examinations by tax authorities for years ended before June 30, 2008. Years ended June 30, 2008 through June 30, 2011 are still subject to potential audit by the IRS. The Charter School adopted the provisions of FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes* and its related amendment on July 1, 2009. Management of the Charter School believes they have no material uncertain tax positions and, accordingly, will not recognize any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$13,000 for the year ended June 30, 2011.

Deferred revenue

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

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 Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 31, 2011, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Leasehold improvements	\$ 1,589,869
Furniture and fixtures	450,723
Computers and equipment	<u>30,067</u>
	2,070,659
Less accumulated depreciation and amortization	<u>1,567,450</u>
	<u>\$ 503,209</u>

Total depreciation and amortization expense for the year ended June 30, 2011 was \$90,197.

NOTE C: OPERATING LEASES

The Charter School leases office equipment under a non-cancelable lease agreement expiring in February 2016. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 22,392
2013	22,392
2014	22,392
2015	22,392
2016	<u>14,928</u>
	<u>\$ 104,496</u>

The Charter School leases classrooms and office facilities under a non-cancelable lease agreement expiring in June 2013. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 720,000
2013	<u>720,000</u>
	<u>\$ 1,440,000</u>

NOTE D: RETIREMENT PLAN

The Charter School sponsors a 401(k) plan (the "Plan") for all eligible employees that is predominantly funded by employees' contributions. The Charter School matches employees' contributions up to 3% of their annual salary. During the year ended June 30, 2011, the Charter School contributed approximately \$39,000 to the Plan.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE E: 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 Charter School. 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 F: CONCENTRATION

At June 30, 2011, approximately 67% 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, 2011, 84% 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 Charter School's students are located.

NOTE G: RELATED PARTY TRANSACTIONS

The President of LPAC is a member of the Board of the Charter School and husband of the Charter School Principal who served during the 2011 fiscal year. In addition, classrooms and office facilities of the Charter School are leased from LPAC. Over the last two years, the Charter School has increased by two grades totaling four classrooms. Thus, the Charter School has leased additional space which will be included in the current lease with an option to extend even further. Total rent expense incurred under this agreement was \$627,465 for the year ended June 30, 2011. See Note C for future minimum lease payments. As of June 30, 2011, \$60,000 is included in accounts payable and accrued expenses due to LPAC relating to CON Ed utility bills which are being questioned by LPAC.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE H: CORRECTION OF ERROR

The Charter School has restated its previously issued 2010 financial statements for matters related to the following previously reported items: accounts receivable, accrued payroll, deferred revenue, deferred rent payable, per pupil operating revenue, governmental grants, rent expense and payroll and benefit expense. During 2011, the Charter School became aware of an error in the payroll accrual process. Certain employees' wages and benefits paid after year end but fully earned as of year end were not accrued. Also, the Charter School discovered that it was not recording rent on the straight-line basis as required under accounting principles generally accepted in the United States of America. In addition, the Charter School determined it had not recorded deferred revenue related to an excess of state and local per-pupil operating revenue received during the 2009-2010 school year. Receivables relating to governmental grants were not properly stated. The opening balance of net assets has been restated to reflect the corrections.

The following is a summary of the restatements for 2010:

Increase in grants and other receivables	<u>\$ 138,134</u>
Increase in accounts payable and accrued expenses	<u>\$ 269,873</u>
Increase in deferred revenue	<u>\$ 4,085</u>
Increase in deferred rent payable	<u>\$ 93,886</u>
Increase in payroll and benefit expenses	<u>\$ 269,873</u>
Decrease in per-pupil operating revenue	<u>\$ 4,085</u>
Increase in governmental grant revenue	<u>\$ 138,134</u>
Increase in rent expense	<u>\$ 74,265</u>
Decrease in net assets	<u>\$ 19,621</u>

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE H: CORRECTION OF ERROR, Cont'd

The effect on the Charter School's previously issued 2010 financial statements is summarized as follows:

Statement of Financial Position as of June 30, 2010:

	<u>Previously reported</u>	<u>Increase (decrease)</u>	<u>Restated</u>
Total assets	<u>\$ 1,165,339</u>	<u>\$ 138,134</u>	<u>\$ 1,303,473</u>
Total liabilities	<u>\$ 332,705</u>	<u>\$ 367,844</u>	<u>\$ 700,549</u>
Total net assets	<u>\$ 832,634</u>	<u>\$ (229,710)</u>	<u>\$ 602,924</u>

Statement of Activities and Changes in Net Assets for the year ended June 30, 2010:

	<u>Previously reported</u>	<u>Increase (decrease)</u>	<u>Restated</u>
Total revenues	\$ 5,339,997	\$ 134,049	\$ 5,474,046
Total expenses	<u>5,260,508</u>	<u>344,138</u>	<u>5,604,646</u>
Change in net assets	79,489	(210,089)	(130,600)
Net assets at beginning of year	<u>753,145</u>	<u>(19,621)</u>	<u>733,524</u>
NET ASSETS AT END OF YEAR	<u>\$ 832,634</u>	<u>\$ (229,710)</u>	<u>\$ 602,924</u>