

FAMILY LIFE ACADEMY CHARTER SCHOOL
BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2012
(With Comparative Totals for 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, 2012, 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. The prior year summarized comparative information has been derived from the financial statements of Family Life Academy Charter School's as of June 30, 2011 and , in our report dated October 31, 2011, we expressed an unqualified opinion on those financial statements.

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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012 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, Barr & Co. LLP

Rochester, New York
October 22, 2012

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FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

(With Comparative Totals for 2011)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 454,396	\$ 264,447
Certificates of deposit	545,961	533,485
Grants and other receivables	82,241	196,107
Prepaid expenses and other current assets	100,135	63,304
Security deposits	<u>87,376</u>	<u>106,981</u>
TOTAL CURRENT ASSETS	1,270,109	1,164,324
 <u>PROPERTY AND EQUIPMENT, net</u>	 <u>527,563</u>	 <u>503,209</u>
TOTAL ASSETS	<u>\$ 1,797,672</u>	<u>\$ 1,667,533</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 580,157	\$ 530,643
Vacation accrual	138,438	122,066
Deferred revenue	-	34,696
Deferred rent payable	<u>40,663</u>	<u>81,327</u>
TOTAL CURRENT LIABILITIES	759,258	768,732
 <u>NET ASSETS</u>		
Unrestricted	1,028,414	888,801
Temporarily restricted	<u>10,000</u>	<u>10,000</u>
	<u>1,038,414</u>	<u>898,801</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,797,672</u>	<u>\$ 1,667,533</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, 2012
(With Comparative Totals for 2011)

			Total	
	Unrestricted	Temporarily restricted	Year ended June 30,	
			2012	2011
Operating revenue and support:				
State and local per pupil operating revenue	\$ 6,134,032	\$ -	\$ 6,134,032	\$ 5,410,087
Governmental grants	772,160	-	772,160	829,674
Individuals and corporations	164,086	10,000	174,086	134,026
Fundraising	7,658	-	7,658	2,322
Interest income	15,081	-	15,081	23,984
Other income	42,690	-	42,690	335
	7,135,707	10,000	7,145,707	6,400,428
Net assets released from restriction	10,000	(10,000)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	7,145,707	-	7,145,707	6,400,428
Expenses:				
Program:				
Regular education	5,338,188	-	5,338,188	4,011,610
Special education	728,118	-	728,118	981,867
Management and general	926,497	-	926,497	1,110,662
Fundraising	13,291	-	13,291	412
TOTAL EXPENSES	7,006,094	-	7,006,094	6,104,551
CHANGE IN NET ASSETS	139,613	-	139,613	295,877
Net assets at beginning of year	888,801	10,000	898,801	602,924
NET ASSETS AT END OF YEAR	\$ 1,028,414	\$ 10,000	\$ 1,038,414	\$ 898,801

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012
(With Comparative Totals for 2011)

	Year ended June 30,						2011	
	2012			2011				
	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	\$ 193,829	\$ 26,438	\$ 220,267	\$ 513,958	\$ -	\$ 513,958	\$ 734,225	\$ 666,542
Instructional personnel	2,659,580	362,762	3,022,342	-	-	-	3,022,342	2,636,428
Non-instructional personnel	317,573	43,316	360,889	-	-	-	360,889	343,018
Total personnel services costs	3,170,982	432,516	3,603,498	513,958	-	513,958	4,117,456	3,645,988
Payroll taxes and fringe benefits	477,077	65,072	542,149	77,325	-	77,325	619,474	547,254
Retirement	35,352	4,822	40,174	5,730	-	5,730	45,904	39,241
Accounting and audit services	-	-	-	121,526	-	121,526	121,526	36,285
Other purchased / professional / consulting services	169,446	23,112	192,558	22,117	-	22,117	214,675	222,356
Building and land rent / lease	529,895	72,277	602,172	85,886	-	85,886	688,058	627,465
Repairs and maintenance	71,726	9,783	81,509	11,625	-	11,625	93,134	92,438
Insurance	27,965	3,814	31,779	4,532	-	4,532	36,311	25,925
Utilities	80,809	11,022	91,831	13,098	-	13,098	104,929	60,000
Supplies and materials	315,318	43,009	358,327	-	-	-	358,327	273,419
Equipment and furnishings	22,761	3,104	25,865	5,741	-	5,741	31,606	1,032
Staff development	5,532	755	6,287	2,155	-	2,155	8,442	58,095
Marketing and recruitment	2,511	342	2,853	262	13,291	13,553	16,406	13,961
Technology	60,577	8,263	68,840	9,818	-	9,818	78,658	77,949
Food services	173,447	23,658	197,105	-	-	-	197,105	204,182
Office expense	87,120	11,883	99,003	14,121	-	14,121	113,124	73,373
Depreciation and amortization	107,670	14,686	122,356	17,451	-	17,451	139,807	90,197
Miscellaneous	-	-	-	21,152	-	21,152	21,152	15,391
	<u>\$ 5,338,188</u>	<u>\$ 728,118</u>	<u>\$ 6,066,306</u>	<u>\$ 926,497</u>	<u>\$ 13,291</u>	<u>\$ 939,788</u>	<u>\$ 7,006,094</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, 2012
(With Comparative Totals for 2011)

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 139,613	\$ 295,877
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	139,807	90,197
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	113,866	41,569
Prepaid expenses and other current assets	(36,831)	(13,505)
Security deposits	19,605	(60,000)
Accounts payable and accrued expenses	49,514	72,776
Vacation accrual	16,372	22,390
Deferred revenue	(34,696)	(14,424)
Deferred rent payable	(40,664)	(12,559)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	366,586	422,321
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(164,161)	(238,783)
Increase in certificates of deposit	(12,476)	(113,503)
NET CASH USED FOR INVESTING ACTIVITIES	(176,637)	(352,286)
NET INCREASE IN CASH AND CASH EQUIVALENTS	189,949	70,035
Cash and cash equivalents at beginning of year	264,447	194,412
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 454,396	\$ 264,447

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 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 20, 2008, the Charter School obtained a renewal through June 29, 2013. The Charter School, a 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 (GAAP). 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, 2012 or 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, 2012 and 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, 2012 AND 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.

Certificates of deposit

Certificates of deposit represent certificates 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 certificates 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, 2012 or 2011.

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.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012 AND 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 in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2012, the Charter School is no longer subject to U.S. federal income tax examinations by tax authorities for years ended before June 30, 2009. Years ended June 30, 2009 through June 30, 2012 are still subject to potential audit by the IRS. 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 \$16,000 and \$14,000 for the years ended June 30, 2012 and 2011, respectively.

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.

Reclassifications

Certain 2011 amounts have been reclassified to conform with the 2012 presentation.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 22, 2012, 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, 2012 AND 2011

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

Cont'd

Comparatives for year ended June 30, 2011

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 Charter School's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 1,652,885	\$ 1,589,869
Furniture and fixtures	468,242	450,723
Computers and equipment	<u>113,693</u>	<u>30,067</u>
	2,234,820	2,070,659
Less accumulated depreciation and amortization	<u>1,707,257</u>	<u>1,567,450</u>
	<u>\$ 527,563</u>	<u>\$ 503,209</u>

Total depreciation and amortization expense was \$139,807 and \$90,197 for the years ended June 30, 2012 and 2011, respectively.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012 AND 2011

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>
2013	\$ 22,392
2014	22,392
2015	22,392
2016	<u>14,928</u>
	<u>\$ 82,104</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>
2013	<u>\$ 720,000</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 years ended June 30, 2012 and 2011, the Charter School contributed approximately \$46,000 and \$39,000 to the Plan, respectively.

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.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012 AND 2011

NOTE F: CONCENTRATIONS

At June 30, 2012 and 2011, approximately 77% and 67%, respectively of grants and other receivables are due from the New York State Department of Education relating to certain grants. At June 30, 2012, approximately 22% of grants and other receivables are due from a grantor.

During the years ended June 30, 2012 and 2011, 86% and 85%, 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 Charter School's students are located.

NOTE G: RELATED PARTY TRANSACTIONS

Classrooms and office facilities of the Charter School are leased from LPAC, whose President is a member of the Board of the Charter School. Over the last few years, the Charter School has leased additional space as it continued to expand, which was included in the current lease with an option to extend even further. Total rent expense incurred under this agreement was \$679,337 and \$627,465 for the years ended June 30, 2012 and 2011, respectively. See Note C for future minimum lease payments. As of June 30, 2011, \$60,000 was included in accounts payable and accrued expenses due to LPAC relating to CON Ed utility bills which were being questioned by LPAC. These contested utility bills were settled during the year ended June 30, 2012 for approximately \$75,000. The Charter School was responsible for approximately \$34,000 of this disputed amount, which was credited against the accrued payments to LPAC.