

FAMILY LIFE ACADEMY CHARTER SCHOOL

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013

(With Comparative Totals for 2012)



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 School

Report on the Financial Statements

We have audited the accompanying financial statements of Family Life Academy Charter School, which comprise the statement of financial position as of June 30, 2013, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Life Academy Charter School as of June 30, 2013, 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, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2012. In our opinion, the summarized comparative information presented herein as of June 30, 2012 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 23, 2013 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 financial reporting and compliance.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 23, 2013

FAMILY LIFE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(With Comparative Totals for 2012)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 958,957	\$ 925,070
Cash in escrow	75,978	75,287
Grants and other receivables	289,706	82,241
Prepaid expenses and other current assets	54,292	100,135
Security deposits	<u>89,376</u>	<u>87,376</u>
TOTAL CURRENT ASSETS	1,468,309	1,270,109
 <u>PROPERTY AND EQUIPMENT, net</u>	 <u>704,858</u>	 <u>527,563</u>
TOTAL ASSETS	<u>\$ 2,173,167</u>	<u>\$ 1,797,672</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 790,898	\$ 580,157
Vacation accrual	186,538	138,438
Deferred rent payable	<u>-</u>	<u>40,663</u>
TOTAL CURRENT LIABILITIES	977,436	759,258
 <u>NET ASSETS</u>		
Unrestricted	1,178,594	1,028,414
Temporarily restricted	<u>17,137</u>	<u>10,000</u>
	<u>1,195,731</u>	<u>1,038,414</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,173,167</u>	<u>\$ 1,797,672</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, 2013
(With Comparative Totals for 2012)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	
			<u>Year ended June 30, 2013</u>	<u>2012</u>
Operating revenue and support:				
State and local per pupil				
operating revenue	\$ 6,428,171	\$ -	\$ 6,428,171	\$ 6,134,032
Governmental grants	792,961	-	792,961	772,160
Individuals and corporations	140,116	17,137	157,253	174,086
Fundraising	7,826	-	7,826	7,658
Interest income	5,701	-	5,701	15,081
Other income	<u>70,574</u>	<u>-</u>	<u>70,574</u>	<u>42,690</u>
	7,445,349	17,137	7,462,486	7,145,707
 Net assets released from restriction	 <u>10,000</u>	 <u>(10,000)</u>	 <u>-</u>	 <u>-</u>
 TOTAL OPERATING REVENUE AND SUPPORT	 7,455,349	 7,137	 7,462,486	 7,145,707
 Expenses:				
Program:				
Regular education	5,587,498	-	5,587,498	5,338,188
Special education	717,642	-	717,642	728,118
Management and general	905,078	-	905,078	926,497
Fundraising and special events	<u>94,951</u>	<u>-</u>	<u>94,951</u>	<u>13,291</u>
TOTAL EXPENSES	7,305,169	-	7,305,169	7,006,094
 CHANGE IN NET ASSETS	 150,180	 7,137	 157,317	 139,613
 Net assets at beginning of year	 <u>1,028,414</u>	 <u>10,000</u>	 <u>1,038,414</u>	 <u>898,801</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,178,594</u>	<u>\$ 17,137</u>	<u>\$ 1,195,731</u>	<u>\$ 1,038,414</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, 2013
(With Comparative Totals for 2012)

	Year ended June 30,							2012
	2013							
	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	\$ 225,067	\$ 28,907	\$ 253,974	\$ 499,607	\$ 93,000	\$ 592,607	\$ 846,581	\$ 734,225
Instructional personnel	2,756,650	354,055	3,110,705	-	-	-	3,110,705	3,022,342
Non-instructional personnel	<u>316,315</u>	<u>40,627</u>	<u>356,942</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,942</u>	<u>360,889</u>
Total personnel services costs	3,298,032	423,589	3,721,621	499,607	93,000	592,607	4,314,228	4,117,456
Payroll taxes and fringe benefits	540,075	69,366	609,441	97,044	-	97,044	706,485	619,474
Retirement	42,907	5,511	48,418	7,710	-	7,710	56,128	45,904
Accounting and audit services	-	-	-	71,891	-	71,891	71,891	121,526
Other purchased / professional / consulting services	264,283	33,944	298,227	23,002	-	23,002	321,229	214,675
Building and land rent / lease	534,660	68,670	603,330	96,070	-	96,070	699,400	688,058
Repairs and maintenance	97,871	12,570	110,441	17,586	-	17,586	128,027	93,134
Insurance	27,851	3,577	31,428	5,004	-	5,004	36,432	36,311
Utilities	91,996	11,816	103,812	16,530	-	16,530	120,342	104,929
Supplies and materials	171,656	22,047	193,703	-	-	-	193,703	358,327
Equipment and furnishings	32,769	4,209	36,978	1,381	-	1,381	38,359	31,606
Staff development	47,570	6,110	53,680	2,158	-	2,158	55,838	8,442
Marketing and recruitment	1,812	233	2,045	169	1,951	2,120	4,165	16,406
Technology	36,335	4,667	41,002	6,529	-	6,529	47,531	78,658
Food services	169,066	21,714	190,780	-	-	-	190,780	197,105
Office expense	93,396	11,995	105,391	16,782	-	16,782	122,173	113,124
Depreciation and amortization	137,219	17,624	154,843	24,656	-	24,656	179,499	139,807
Miscellaneous	-	-	-	18,959	-	18,959	18,959	21,152
	<u>\$ 5,587,498</u>	<u>\$ 717,642</u>	<u>\$ 6,305,140</u>	<u>\$ 905,078</u>	<u>\$ 94,951</u>	<u>\$ 1,000,029</u>	<u>\$ 7,305,169</u>	<u>\$ 7,006,094</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, 2013
(With Comparative Totals for 2012)

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 157,317	\$ 139,613
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	179,499	139,807
Changes in certain assets and liabilities affecting operations:		
Cash in escrow	(691)	(75,287)
Grants and other receivables	(207,465)	113,866
Prepaid expenses and other current assets	45,843	(36,831)
Security deposits	(2,000)	19,605
Accounts payable and accrued expenses	210,741	49,514
Vacation accrual	48,100	16,372
Deferred revenue	-	(34,696)
Deferred rent payable	(40,663)	(40,664)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	390,681	291,299
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(356,794)	(164,161)
NET CASH USED FOR INVESTING ACTIVITIES	(356,794)	(164,161)
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,887	127,138
Cash and cash equivalents at beginning of year	925,070	797,932
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 958,957</u>	<u>\$ 925,070</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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 and August 19, 2013, the Charter School obtained a renewal through June 30, 2018. 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, 2013 or 2012.

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, 2013 and 2012 are restricted for the purchase of certain equipment and for various programs at the school.

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, 2013 AND 2012

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

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 Charter School 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 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.

Cash in escrow

The Charter School 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 2014.

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, 2013 or 2012.

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.

Investment in joint venture

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

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

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, 2013, the Charter School is no longer subject to U.S. federal income tax examinations by tax authorities for years ended before June 30, 2010. Years ended June 30, 2010 through June 30, 2013 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. In addition the Charter School 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.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$4,000 and \$16,000 for the years ended June 30, 2013 and 2012, 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.

Reclassifications

Certain 2012 amounts have been reclassified to conform with the 2013 presentation.

Comparatives for year ended June 30, 2012

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, 2012, from which the summarized information was derived.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 23, 2013, 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, 2013 AND 2012

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 1,816,416	\$ 1,652,886
Furniture and fixtures	482,748	468,242
Computers and equipment	<u>292,451</u>	<u>113,693</u>
	2,591,615	2,234,821
Less accumulated depreciation and amortization	<u>1,886,757</u>	<u>1,707,258</u>
	<u>\$ 704,858</u>	<u>\$ 527,563</u>

Total depreciation and amortization expense was \$179,499 and \$139,807 for the years ended June 30, 2013 and 2012, respectively.

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>
2014	\$ 22,392
2015	22,392
2016	<u>14,928</u>
	<u>\$ 59,712</u>

NOTE D: SCHOOL FACILITY

The Charter School leases classrooms and office facilities under a non-cancelable lease agreement expiring in June 2018. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2014	\$ 720,000
2015	720,000
2016	720,000
2017	741,600
2018	<u>763,848</u>
	<u>\$ 3,665,448</u>

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

NOTE E: 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, 2013 and 2012, the Charter School contributed approximately \$56,000 and \$46,000 to the Plan, respectively.

NOTE F: 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 G: CONCENTRATIONS

At June 30, 2013 and 2012, approximately 73% and 77%, 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, 2013 and 2012, 86% 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 H: 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. Total rent expense incurred under this agreement was \$689,455 and \$679,337 for the years ended June 30, 2013 and 2012, respectively. See Note D for future minimum lease payments. As of June 30, 2013 the Charter School had approximately \$31,000 of receivables from LPAC.

During 2013 the Charter School and LPAC entered into a joint venture to purchase a building. See Note I for further information.

FAMILY LIFE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

NOTE I: JOINT VENTURE

On October 12, 2012, the Charter School 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 Charter School is a 50% partner 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 another charter school.

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

	<u>June 30, 2013</u>
<u>Statement of Financial Position</u>	
Total assets	\$ 2,815,356
Total liabilities	2,815,356
Net assets	-
Charter School's share of net assets	-
<u>Statement of Activities</u>	
Revenue	\$ -
Expenses	-
Change in net assets	-

NOTE J: CONTINGENCY

On January 25, 2013, the joint venture purchased real property that is intended for another charter school. As of the report date, the acquired property is still being renovated and the property has not been rented. As part of the purchase of the property, the Charter School 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 Charter School would be required to pay the loans in the event of default and as of June 30, 2013, the outstanding balance of the mortgage notes was \$4,700,000. At June 30, 2013, the maximum amount of future payments (undiscounted) that the Charter School could be required to make under the guarantees is approximately \$5,615,000. At this time, the Charter School fully expects that all of the above debt obligations will be repaid by the related parties in accordance with their terms. The Charter School has not recognized a liability for these guarantees.

NOTE K: COMMITMENT

On April 15, 2013, the Charter Schools Committee of the State University of New York approved the merger of Family Life Academy Charter School II into Family Life Academy Charter School. The Charter School is awaiting approval from the New York State Board of Regents. The merger is expected to take effect July 1, 2014.