

FAMILY LIFE ACADEMY CHARTER SCHOOLS

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2016

(With Comparative Totals for 2015)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Family Life Academy Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Family Life Academy Charter Schools (the "Organization"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Life Academy Charter Schools as of June 30, 2016, 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 Schools' June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2015. In our opinion, the summarized comparative information present herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it is derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2016 on our consideration of Family Life Academy Charter Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Family Life Academy Charter Schools' internal control over other financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 12, 2016

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

(With Comparative Totals for 2015)

<u>ASSETS</u>	June 30,	
	2016	2015
<u>CURRENT ASSETS</u>		
Cash	\$ 1,799,682	\$ 292,192
Cash in escrow	202,736	177,056
Grants and other receivables	464,979	257,483
Prepaid expenses and other current assets	124,867	53,092
TOTAL CURRENT ASSETS	2,592,264	779,823
 <u>PROPERTY AND EQUIPMENT, net</u>	 1,464,686	 1,199,193
<u>OTHER ASSETS</u>		
Security deposits	228,253	272,253
Due from related parties	81,232	761,279
Investment in joint venture	2,475	330,758
	311,960	1,364,290
TOTAL ASSETS	\$ 4,368,910	\$ 3,343,306
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Current portion of long-term debt	\$ -	\$ 34,171
Accounts payable and accrued expenses	258,557	432,582
Accrued payroll and benefits	801,815	709,704
Vacation accrual	189,005	285,010
Deferred revenue	215,639	113,872
TOTAL CURRENT LIABILITIES	1,465,016	1,575,339
<u>OTHER LIABILITIES</u>		
Long-term debt	-	201,740
Deferred lease incentive	100,000	100,000
Deferred rent payable	488,770	389,930
	588,770	691,670
<u>NET ASSETS</u>		
Unrestricted	2,253,579	1,051,047
Temporarily restricted	61,545	25,250
	2,315,124	1,076,297
TOTAL LIABILITIES AND NET ASSETS	\$ 4,368,910	\$ 3,343,306

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	Year ended June 30,			2015
	2016		Total	
	Unrestricted	Temporarily restricted		
Revenue, gains and other support:				
Public school district:				
Resident student enrollment	\$ 12,096,492	\$ -	\$ 12,096,492	\$ 10,490,664
Students with disabilities	765,315	-	765,315	668,172
Grants and contracts:				
State and local	566,855	-	566,855	573,494
Federal - Title and IDEA	734,764	-	734,764	682,357
Federal - other	179,272	-	179,272	522,737
Food service/Child Nutrition Program	621,953	-	621,953	492,789
New York City rental assistance	828,252	-	828,252	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	15,792,903	-	15,792,903	13,430,213
Expenses:				
Program services:				
Regular education	10,637,604	-	10,637,604	10,588,340
Special education	1,379,078	-	1,379,078	966,206
Total program services	12,016,682	-	12,016,682	11,554,546
Management and general	2,193,671	-	2,193,671	1,658,271
Fundraising and special events	152,756	-	152,756	106,445
TOTAL OPERATING EXPENSES	14,363,109	-	14,363,109	13,319,262
SURPLUS FROM SCHOOL OPERATIONS	1,429,794	-	1,429,794	110,951
Support and other revenue:				
Contributions:				
Foundations	30,513	49,487	80,000	50,000
Individuals	78	-	78	70
Corporations	1,500	6,000	7,500	38,981
In-kind	550	-	550	20,620
Fundraising	10,278	-	10,278	6,880
Interest income	8,740	-	8,740	2,501
Other income	170	-	170	28,541
Net assets released from restriction	19,192	(19,192)	-	-
TOTAL SUPPORT AND OTHER REVENUE	71,021	36,295	107,316	147,593
(LOSS) INCOME FROM JOINT VENTURE	(298,283)	-	(298,283)	258,583
CHANGE IN NET ASSETS	1,202,532	36,295	1,238,827	517,127
Net assets at beginning of year	1,051,047	25,250	1,076,297	727,720
Transfer of deficiency in net assets from merger of FLACS II	-	-	-	(168,550)
NET ASSETS AT END OF YEAR	\$ 2,253,579	\$ 61,545	\$ 2,315,124	\$ 1,076,297

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	Year ended June 30,								
	2016				2015				
	No. of Positions	Program Services			Supporting Services			Total	Total
Regular Education		Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total			
Personnel services costs:									
Administrative staff personnel	41	\$ 1,522,298	\$ 200,708	\$ 1,723,006	\$ 1,280,616	\$ 129,122	\$ 1,409,738	\$ 3,132,744	\$ 2,497,304
Instructional personnel	86	3,848,351	503,285	4,351,636	-	-	-	4,351,636	3,835,822
Non-instructional personnel	20	345,710	44,835	390,545	-	-	-	390,545	466,331
Total personnel services costs	147	5,716,359	748,828	6,465,187	1,280,616	129,122	1,409,738	7,874,925	6,799,457
Payroll taxes and fringe benefits		959,483	125,462	1,084,945	192,963	17,742	210,705	1,295,650	1,120,590
Retirement		53,479	7,016	60,495	14,625	1,686	16,311	76,806	65,408
Accounting and audit services		-	-	-	119,775	-	119,775	119,775	323,574
Other purchased / professional / consulting services		186,539	25,498	212,037	156,311	-	156,311	368,348	458,395
Building and land rent / lease		1,412,416	174,768	1,587,184	140,795	-	140,795	1,727,979	1,963,725
Repairs and maintenance		343,121	48,207	391,328	42,089	-	42,089	433,417	192,181
Insurance		66,730	8,719	75,449	7,430	-	7,430	82,879	70,839
Utilities		187,603	24,518	212,121	19,425	-	19,425	231,546	277,538
Supplies and materials		372,558	49,392	421,950	-	-	-	421,950	541,149
Equipment and furnishings		7,923	962	8,885	1,183	-	1,183	10,068	2,318
Leased equipment		37,699	4,900	42,599	24,868	-	24,868	67,467	33,072
Staff development		179,122	16,205	195,327	8,963	-	8,963	204,290	188,612
Marketing and recruitment		9,261	1,214	10,475	4,098	-	4,098	14,573	11,144
Technology		159,192	20,210	179,402	20,455	-	20,455	199,857	145,652
Food services		526,588	69,050	595,638	-	-	-	595,638	516,617
Student services		33,693	4,459	38,152	-	-	-	38,152	9,446
Travel		2,709	18	2,727	-	-	-	2,727	2,892
Office expense		35,609	4,665	40,274	117,017	4,206	121,223	161,497	175,571
Depreciation and amortization		347,520	44,987	392,507	36,352	-	36,352	428,859	388,590
Miscellaneous		-	-	-	6,706	-	6,706	6,706	32,492
		\$ 10,637,604	\$ 1,379,078	\$ 12,016,682	\$ 2,193,671	\$ 152,756	\$ 2,346,427	\$ 14,363,109	\$ 13,319,262

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	<u>Year ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,238,827	\$ 517,127
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	428,859	388,590
Loss (income) from joint venture	298,283	(258,583)
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(207,496)	343,559
Prepaid expenses and other current assets	(71,775)	28,586
Security deposits	44,000	(132,877)
Accounts payable and accrued expenses	(174,025)	2,651
Accrued payroll and benefits	92,111	(1,842)
Vacation accrual	(96,005)	13,328
Deferred revenue	101,767	14,331
Deferred lease incentive	-	100,000
Deferred rent payable	<u>98,840</u>	<u>156,517</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,753,386	1,171,387
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(694,352)	(797,221)
Change in due from related parties	680,047	(427,024)
Change in cash in escrow	(25,680)	(75,460)
Distribution from joint venture	<u>30,000</u>	<u>-</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(9,985)</u>	<u>(1,299,705)</u>
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments of long-term debt	<u>(235,911)</u>	<u>(33,765)</u>
NET CASH USED FOR FINANCING ACTIVITIES	<u>(235,911)</u>	<u>(33,765)</u>
NET INCREASE (DECREASE) IN CASH	1,507,490	(162,083)
Cash at beginning of year	<u>292,192</u>	<u>454,275</u>
CASH AT END OF YEAR	<u>\$ 1,799,682</u>	<u>\$ 292,192</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Transfer of property and equipment to due from related parties	<u>\$ -</u>	<u>\$ 451,446</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

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

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

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

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

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

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

FLACS II Merger

Effective July 1, 2014, FLACS II merged with FLACS I and FLACS III in accordance with the approval of the Organization’s Board of Trustees and the Board of Regents of the University of the State of New York. At that time, the assets, liabilities, and net deficiency of FLACS II were transferred to the Organization. Total assets, liabilities, and deficiency in net assets of FLACS II were \$285,592, \$454,142, and \$(168,550), respectively, as of July 1, 2014. On the Statement of Cash Flows, balances at the beginning of the year ended June 30, 2015 have been restated to include the beginning balances of FLACS II.

Basis of presentation

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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

Financial Statement presentation

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

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets at June 30, 2016 and 2015.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets at June 30, 2016 and 2015 are restricted for the purchase of certain equipment and for various programs at the Organization.

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

Revenue and support recognition

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

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

Contributions

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

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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

Cash

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

Cash in escrow

The Organization maintains cash in an escrow account, in accordance with the terms of its Charter Agreement. A portion of the escrow account is invested in a certificate of deposit with a maturity date of May 2017.

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, 2016 or 2015.

Property and equipment

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

Deferred revenue

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

Investment in joint venture

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

Tax exempt status

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

Contributed goods and services

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

The Organization received contributed legal, branding and marketing services and contributed goods which were valued at \$550 and \$20,620 for the years ended June 30, 2016 and 2015, respectively. These amounts are included in in-kind revenue in the accompanying statement of activities and changes in net assets.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

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

Marketing costs

The Organization expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$15,000 and \$11,000 for the years ended June 30, 2016 and 2015, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Comparative information for the year ended June 30, 2015

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, 2015 from which the summarized information was derived.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 12, 2016, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note C and Note F.

NOTE B: RELATED PARTY TRANSACTIONS

FLACS N receives a management allocation from FLACS I, FLACS II, and FLACS III (the "Charter Schools"). The Organization pays for certain operating expenses that benefit the entire organization and then allocates to each Charter School a percentage of these expenses based on the full time equivalent student enrollment at each Charter School. FLACS N was allocated \$1,412,306 from FLACS I, \$782,533 from FLACS II, and \$466,836 from FLACS III for the year ended June 30, 2016. FLACS N was allocated \$1,290,278 from FLACS I, \$562,572 from FLACS II, and \$282,686 from FLACS III for the year ended June 30, 2015.

Classrooms and office facilities of FLACS I are leased from LPAC, whose President is a member of the Board of the Organization. See Note F for further details and future minimum lease payments. During the years ended June 30, 2016 and 2015, the Organization had approximately \$81,000 and \$74,000, respectively, of receivables from LPAC.

During 2013 the Organization and LPAC entered into a joint venture to purchase a building, which was sold during 2016. See Note J for further information.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 2,734,003	\$ 2,508,404
Furniture and fixtures	817,574	683,235
Computers and equipment	<u>1,068,890</u>	<u>734,476</u>
	4,620,467	3,926,115
Less accumulated depreciation and amortization	<u>3,155,781</u>	<u>2,726,922</u>
	<u>\$ 1,464,686</u>	<u>\$ 1,199,193</u>

At June 30, 2016 and 2015, \$142,295 and \$219,520, respectively, of construction in progress is included in leasehold improvements; which is mainly for improvements to the FLACS III facility expected to be utilized in the 2017 school year. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. The construction of the FLACS III facility is being handled by CG Education Holding Corporation. See Note J.

During August 2016, the Organization entered into a contract for approximately \$488,000 for construction costs related to leasehold improvements to the FLACS II facility.

Total depreciation and amortization expense was \$428,859 and \$388,590 for the years ended June 30, 2016 and 2015, respectively.

NOTE D: LONG-TERM DEBT

The Organization held a note payable for equipment owned by CG. The balance of this payable at June 30, 2015 was \$235,911. In 2014, the Organization advanced CG these funds to purchase equipment and, therefore, recorded a receivable from CG for the amount advanced. The amounts were repaid in full during 2016, therefore there is no long-term debt or receivable balances at June 30, 2016. The balance of the receivable at June 30, 2015 was \$235,911 and is included in due from related parties on the accompanying statement of financial position.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE E: OPERATING LEASES

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

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 45,420
2018	45,420
2019	45,420
2020	11,355
	<u>\$ 147,615</u>

NOTE F: SCHOOL FACILITY

FLACS I leases classrooms and office facilities under a non-cancelable lease agreement expiring in June 2018. FLACS I's base rent for the year ended June 30, 2016 was \$720,000 per annum and the base rent increases in accordance with the lease agreement. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent payable" in the accompanying statement of financial position at June 30, 2016 and 2015. Rent expense relative to this lease was \$733,590 and \$733,090 for the years ended June 30, 2016 and 2015, respectively. In conjunction with this facility lease, FLACS I paid a security deposit of \$89,376, which is included in security deposits on the accompanying statement of financial position at June 30, 2015. This was reduced by \$2,000 to \$87,376 during fiscal 2016. The lease was amended effective September 1, 2016 with an expiration date of June 30, 2022 and a revised payment schedule.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 779,167
2018	953,700
2019	982,311
2020	1,011,780
2021	1,037,811
Thereafter	1,068,947
	<u>\$ 5,833,716</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE F: SCHOOL FACILITY, Cont'd

FLACS II leases classrooms and office facilities under a non-cancelable lease agreement expiring in June 2038 which they assumed from their former landlord effective January 2015. FLACS II's base rent for the year ended June 30, 2016 was \$506,634 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, 2016 and 2015. Rent expense relative to this lease was \$799,806 and \$643,477 for the years ended June 30, 2016 and 2015, respectively. In connection with the assumption of this lease, the former landlord agreed to share in the cost of FLACS II making certain leasehold improvements to the building in accordance with the terms of the agreement. \$100,000 had been advanced to FLACS II and is included in deferred lease incentive on the accompanying statement of financial position at June 30, 2016 and 2015. Also in conjunction with this facility lease, FLACS II paid a security deposit of \$140,877, which is included in security deposits on the accompanying statement of financial position at June 30, 2016 and 2015.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 526,899
2018	547,975
2019	569,894
2020	592,690
2021	616,397
Thereafter	<u>15,191,368</u>
	<u>\$ 18,045,223</u>

Prior to the sale of the building in January 2016, as described in Note J, FLACS III leased classrooms and office facilities scheduled through June 2019. FLACS III's base rent for the year ended June 30, 2016 was \$504,000 per annum and the base rent increased in accordance with the lease agreement. The total amount of rental payments due over the lease term was 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 was credited or charged to "Deferred rent payable" in the accompanying statement of financial position at June 30, 2015 approximately \$205,000. Rent expense relative to this lease was \$95,399 and \$491,098 for the years ended June 30, 2016 and 2015, respectively. In conjunction with this facility lease, FLACS III paid a security deposit of \$42,000, which was included in security deposits on the accompanying statement of financial position at June 30, 2015. The security deposit was returned to FLACS III in full during 2016.

Upon sale of the building in January 2016, FLACS III entered into a new lease with an unrelated party for the classrooms and office facilities. The lease has a twenty year term, and payments are to be determined upon completion of construction on the building.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE G: RETIREMENT PLAN

The Organization sponsors a 401(k) plan (the "Plan") for all eligible employees that are predominantly funded by employees' contributions. The Organization matches employees' contributions up to 3% of their annual salary. During the years ended June 30, 2016 and 2015, the Organization contributed approximately \$70,000 and \$59,000, respectively, to the Plan.

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, 2016, approximately 98% 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, 2016, 81% 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.

At June 30, 2015, approximately 73% of grants and other receivables are due from the New York State Department of Education relating to certain grants. During the year ended June 30, 2015, 83% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Organization's students are located.

NOTE J: JOINT VENTURE

On October 12, 2012, the Organization entered into a joint venture agreement with LPAC forming CG Educational Holding Corp., a 501(c)(25) nonprofit real property title holding corporation ("CG"). The Organization has a 50% beneficial interest in the joint venture. CG was formed for the purposes of owning, holding title and managing the rental of a property designated to be for FLACS III. During January 2016, the building was sold by CG to an unrelated party.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE J: JOINT VENTURE, Cont'd

Following is a summary of the financial position and results of operations of the joint venture as of and for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<u>Statement of Financial Position</u>		
Total assets	\$ 4,950	\$ 5,127,101
Total liabilities	<u>-</u>	<u>4,465,587</u>
Net assets	4,950	661,514
FLACS share of net assets	\$ 2,475	\$ 330,758
<u>Statement of Activities</u>		
Revenue	\$ 1,112,243	\$ 524,525
Expenses	<u>1,708,808</u>	<u>8,377</u>
Change in net assets	(596,565)	516,148
Distributions	<u>60,000</u>	<u>-</u>
Change in net assets, after distributions	\$ (656,565)	\$ 516,148

On January 25, 2013, the joint venture purchased real property intended to be used by FLACS III. During 2016, the property was sold to an unrelated third party, and the property is still intended to be used by FLACS III. For the years ended June 30, 2016 and 2015, FLACS III paid a total of \$95,399 and \$491,098, respectively, for rental of the property to CG. The property was still being renovated and \$142,044 and \$219,520 is classified as leasehold improvements in the accompanying statement of financial position at June 30, 2016 and 2015, respectively.

As part of the initial purchase of the above-mentioned property, the Organization became a co-guarantor of two mortgages, one in the name of LPAC, and the other in the name of CG. The CG mortgage was repaid in full during 2016 in conjunction with the sale of the building. The term of the guarantee on the LPAC mortgage is through January 2018, with an option to extend for an additional 5 years if certain requirements are met. The Organization would be required to pay the loan in the event of default and as of June 30, 2016, the outstanding balance of the mortgage note was approximately \$1,748,000. At June 30, 2016, the maximum amount of future payments (undiscounted) the Organization could be required to make under the guarantee was approximately \$2,693,000.

As part of the renovations that were made to the property during fiscal year 2014, the Organization became a co-guarantor of additional monies borrowed by CG. This mortgage was repaid in full during 2016 in conjunction with the sale of the building.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2016

(With Comparative Totals for 2015)

NOTE J: JOINT VENTURE, Cont'd

In August 2014, the Organization was named a co-guarantor on a second mortgage entered into by CG. This mortgage was repaid in full during 2016 in conjunction with the sale of the building.

During 2014, the Organization purchased \$451,446 of leasehold improvements for the FLACS III facility. During 2015, it was determined that CG was going to capitalize these assets on their financial statements; therefore, these assets were transferred to due from related party on the accompanying Statement of Financial Position at June 30, 2015. The Organization collected this receivable during 2016.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Family Life Academy Charter Schools

We have audited the financial statements of Family Life Academy Charter Schools as of and for the year ended June 30, 2016, and have issued our report thereon dated October 12, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information hereinafter is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements for the year ended June 30, 2016, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 12, 2016

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2016

<u>ASSETS</u>	<u>Family Life Academy Charter School I</u>	<u>Family Life Academy Charter School II</u>	<u>Family Life Academy Charter School III</u>	<u>Family Life Academy Charter School Network</u>	<u>Eliminations</u>	<u>Total</u>
<u>CURRENT ASSETS</u>						
Cash	\$ 1,451,729	\$ 120,819	\$ 190,718	\$ 36,416	\$ -	\$ 1,799,682
Cash in escrow	77,415	125,321	-	-	-	202,736
Grants and other receivables	247,313	125,257	72,409	20,000	-	464,979
Interschool receivables	95,319	-	-	132,559	(227,878)	-
Prepaid expenses and other current assets	<u>67,228</u>	<u>52,843</u>	<u>1,198</u>	<u>3,598</u>	<u>-</u>	<u>124,867</u>
TOTAL CURRENT ASSETS	1,939,004	424,240	264,325	192,573	(227,878)	2,592,264
<u>PROPERTY AND EQUIPMENT, net</u>	408,586	592,628	455,476	7,996	-	1,464,686
<u>OTHER ASSETS</u>						
Security deposits	87,376	140,877	-	-	-	228,253
Due from related parties	81,232	-	-	-	-	81,232
Investment in joint venture	<u>2,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,475</u>
	<u>171,083</u>	<u>140,877</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>311,960</u>
TOTAL ASSETS	<u>\$ 2,518,673</u>	<u>\$ 1,157,745</u>	<u>\$ 719,801</u>	<u>\$ 200,569</u>	<u>\$ (227,878)</u>	<u>\$ 4,368,910</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2016

<u>LIABILITIES AND NET ASSETS</u>	<u>Family Life Academy Charter School I</u>	<u>Family Life Academy Charter School II</u>	<u>Family Life Academy Charter School III</u>	<u>Family Life Academy Charter School Network</u>	<u>Eliminations</u>	<u>Total</u>
<u>CURRENT LIABILITIES</u>						
Accounts payable and accrued expenses	\$ 100,112	\$ 39,530	\$ 49,335	\$ 69,580	\$ -	\$ 258,557
Interschool payables	-	222,267	5,611	-	(227,878)	-
Accrued payroll and benefits	482,957	169,304	102,842	46,712	-	801,815
Vacation accrual	76,906	47,192	20,602	44,305	-	189,005
Deferred revenue	10,390	-	205,249	-	-	215,639
TOTAL CURRENT LIABILITIES	670,365	478,293	383,639	160,597	(227,878)	1,465,016
<u>OTHER LIABILITIES</u>						
Long-term debt	-	-	-	-	-	-
Deferred lease incentive	-	100,000	-	-	-	100,000
Deferred rent payable	39,269	449,501	-	-	-	488,770
	39,269	549,501	-	-	-	588,770
<u>NET ASSETS</u>						
Unrestricted	1,777,494	129,951	326,162	19,972	-	2,253,579
Temporarily restricted	31,545	-	10,000	20,000	-	61,545
	1,809,039	129,951	336,162	39,972	-	2,315,124
TOTAL LIABILITIES AND NET ASSETS	\$ 2,518,673	\$ 1,157,745	\$ 719,801	\$ 200,569	\$ (227,878)	\$ 4,368,910

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2016

	<u>Family Life Academy Charter School I</u>	<u>Family Life Academy Charter School II</u>
Revenue, gains and other support:		
Public school district:		
Resident student enrollment	\$ 6,455,883	\$ 3,559,059
Students with disabilities	492,837	158,188
Grants and contracts:		
State and local	215,417	104,278
Federal - Title and IDEA	448,319	179,875
Federal - other	66,217	-
Food service/Child Nutrition Program	264,089	223,042
New York City rental assistance	-	337,209
	<u>7,942,762</u>	<u>4,561,651</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT		
Expenses:		
Program services:		
Regular education	5,367,482	3,041,708
Special education	692,047	350,331
Total program services	6,059,529	3,392,039
Management and general	1,489,361	869,041
Fundraising and special events	81,702	45,382
	<u>7,630,592</u>	<u>4,306,462</u>
TOTAL OPERATING EXPENSES		
SURPLUS / (DEFICIT) FROM SCHOOL OPERATIONS	<u>312,170</u>	<u>255,189</u>
Support and other revenue:		
Contributions:		
Foundations	50,000	-
Individuals	78	-
Corporations	7,500	-
In-kind	550	-
Management fee income	-	-
Fundraising	1,045	3,715
Interest income	5,474	1,570
Other income	-	-
	<u>64,647</u>	<u>5,285</u>
TOTAL SUPPORT AND OTHER REVENUE		
LOSS FROM JOINT VENTURE	<u>(298,283)</u>	<u>-</u>
CHANGE IN NET ASSETS	78,534	260,474
Net assets (deficiency) at beginning of year	<u>1,730,505</u>	<u>(130,523)</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,809,039</u>	<u>\$ 129,951</u>

<u>Family Life Academy Charter School III</u>	<u>Family Life Academy Charter School Network</u>	<u>Eliminations</u>	<u>Total</u>
\$ 2,081,550	\$ -	\$ -	\$ 12,096,492
114,290	-	-	765,315
247,160	-	-	566,855
106,570	-	-	734,764
113,055	-	-	179,272
134,822	-	-	621,953
<u>491,043</u>	<u>-</u>	<u>-</u>	<u>828,252</u>
3,288,490	-	-	15,792,903
1,594,824	1,157,940	(524,350)	10,637,604
<u>254,758</u>	<u>151,146</u>	<u>(69,204)</u>	<u>1,379,078</u>
1,849,582	1,309,086	(593,554)	12,016,682
551,160	1,203,176	(1,919,067)	2,193,671
<u>25,469</u>	<u>149,257</u>	<u>(149,054)</u>	<u>152,756</u>
<u>2,426,211</u>	<u>2,661,519</u>	<u>(2,661,675)</u>	<u>14,363,109</u>
<u>862,279</u>	<u>(2,661,519)</u>	<u>2,661,675</u>	<u>1,429,794</u>
10,000	20,000	-	80,000
-	-	-	78
-	-	-	7,500
-	-	-	550
-	2,661,675	(2,661,675)	-
-	5,518	-	10,278
1,649	47	-	8,740
<u>170</u>	<u>-</u>	<u>-</u>	<u>170</u>
<u>11,819</u>	<u>2,687,240</u>	<u>(2,661,675)</u>	<u>107,316</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(298,283)</u>
874,098	25,721	-	1,238,827
<u>(537,936)</u>	<u>14,251</u>	<u>-</u>	<u>1,076,297</u>
<u>\$ 336,162</u>	<u>\$ 39,972</u>	<u>\$ -</u>	<u>\$ 2,315,124</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS

ADVISORY COMMENT LETTER

JUNE 30, 2016



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 12, 2016

To the Board of Trustees
Family Life Academy Charter Schools

In planning and performing our audit of the financial statements of Family Life Academy Charter Schools (the “Organization”) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, material weaknesses may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We have updated the status of the following comments and recommendations that were communicated to management in our letter dated October 15, 2015 in conjunction with the audit of the financial statements for the year ended June 30, 2015.

Material Auditor Adjustments

During our 2014 audit, we noted the books and records for all affiliated entities which require disclosure in the financial statements were not properly reconciled. We also noted certain representations made by management, based on the best documentation management had available at the time, were significantly changed upon further follow up with vendors and affiliated entities as part of our audit procedures.

Recommendation

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

Status at June 30, 2015

During our 2015 audit, we noted one instance where a material loan agreement (as discussed below in the prior year) was still not properly included in debt and related party receivables. This resulted in an approximately \$270,000 entry to beginning net assets in order to agree to the prior year audited financial statements. We also noted current year activity was not properly reconciled relative to investment in joint venture and deferred rent payable. We recommend that management ensure all corrected misstatements identified in the audit are properly recorded and reflected in their internal financial statements in a timely manner. We noted no other instances where transactions with affiliated entities were not properly reconciled.

Status at June 30, 2016

During our 2016 audit, no material auditor adjustments were necessary.

Billing of Per-Pupil Revenues

During our 2015 audit, we noted one student whose file indicated he resided in the Yonkers school district for the entire year, however, the Organization improperly billed the NYC Department of Education (DOE). We also noted the Organization promptly filed amended invoices to both Yonkers and DOE after discovering this error.

Recommendation

While the ultimate financial statement impact to the Organization was insignificant, it is important to be prudent with billing procedures to ensure all schools remain eligible to receive funds and do so in a timely manner.

Status at June 30, 2016

During our 2016 audit, we noted no errors related to billing of Per-Pupil revenues.

Incomplete Employee Files

During our 2015 audit, we noted two teachers whose files were missing required documentation to support their education level. The Organization did ultimately receive the required documentation. Title grant funding received by the Organization can only be spent on teachers who meet certain education requirements, as such, the school is supposed to obtain and retain documentation supporting each teachers education level.

Recommendation

We recommend that the Organization obtain all required documentation to support that each teacher hired meets the specific requirements of the federal grant that the school receives money from.

Status at June 30, 2016

During our 2016 audit, we noted no missing documentation from employee files.

Undisclosed Loan Agreement

During our 2014 audit procedures, we noted a loan was entered into by the Organization for the purpose of purchasing certain equipment to be installed at 370 Gerard Avenue which is owned by CG Educational Holding Corp. (CG), an affiliated entity. Our understanding is that the intention of the transaction was for CG to own the assets, hold the note and make monthly payments until such note was fully paid for. However, the Organization actually entered into the agreement with the verbal understanding that CG would make payments on their behalf. As stated in the Financial Policies and Procedures Manual (FPPM), all long-term debt should be approved by the Board of Trustees and should not exceed the duration of the charter without consent of the Board of Education. We noted that while a Board member signed the agreement, there was no formal mention of this agreement in the minutes of the Organization. We also noted the duration of the agreement was 7 years, which extends beyond the 5-year duration of the 4th Renewal and Restated Charter, yet there was no approval from the Board of Education. Lastly, we noted this agreement was only recorded on the books of CG, which resulted in a material audit adjustment to ensure this obligation was properly captured on the Organization's books.

Recommendation

We recommend the Organization immediately seek approval for this loan from the Authorizer and that the Board of Trustees vote on ratification of this agreement, with those Board members affiliated with CG recusing themselves from the vote. We further recommend that all significant agreements which are specifically in the name of the Organization be well documented in the minutes and appropriately recorded.

Status at June 30, 2015

During our 2015 audit, we noted there was no formal authorization obtained from the Authorizer and no formal vote to ratify this agreement after reviewing the minutes from the first meeting in July 2014 through the latest minutes available in June 2015. As noted above, this loan was also not properly recorded on the Organization's internal financial statements in accordance with the corrected misstatements identified in the 2014 audit. We did note, however, that there was documentation of a review of significant agreements in the current year minutes, and a roll call was taken documenting who voted and who recused themselves.

Status at June 30, 2016

During our 2016 audit, we noted the loan was repaid as of June 30, 2016 and no other instances of similar undisclosed agreements were noted.

CSP Grant

During our 2013 financial statement audit of Family Life Academy Charter School II (“FLACS II”), we noted they misstated the amounts of funds expended to date and funds to be expended in the following 30 days on FS-25 forms filed with respect to the Charter School Program (“CSP”) grant awarded to FLACS II to be in accordance with the United States Department of Education General Administrative Regulations (“EDGAR”) Parts 74 and 80. The misstatements appear to be due to a reallocation of expenses to other grants.

For the period from the initial advance of CSP funds to June 30, 2013, FLACS II filed six FS-25 forms and one FS-10F form with the New York State Education Department. Each FS-25 form requires reporting the cash expenditures to date on Line 3 of the form. Our audit procedures determined FLACS II overstated the reported amount of cash expenditures to date on five of the six FS-25s filed. The overstatements ranged from approximately \$38,600 to \$72,600. In addition, the FS-25 forms allow FLACS II to request an advance of funds to be spent within 30 days on Line 4 of the form. Our audit procedures found that funds requested in advance were not fully utilized within 30 days on two of the six FS-25s filed. We understand FLACS II was in compliance with the CSP grant in the aggregate by the end of the grant period ended August 31, 2013; however we did not audit this information as a Single Audit in accordance with OMB A-133 was not required at that time.

Recommendation

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

Status at June 30, 2014

We noted FLACS II properly expended funds after filing form FS-25. However, during our Single Audit of Family Life Academy Charter School (FLACS I) and Family Life Academy Charter School III (FLACS III), FLACS III misstated the amounts of funds to be expended in the following 30 days on FS-25. For the period from the initial advance of CSP funds to June 30, 2014, FLACS III filed one FS-25 Form with the New York State Education Department. Our audit procedures found that funds requested in advance were not fully utilized within 30 days of the filed Forms FS-25. We continue to recommend that the schools only request reimbursements from CSP after the expense has been incurred, or within 30 days prior to the expenditure.

Status at June 30, 2015

We noted FLACS III properly expended funds after filing form FS-25. However, during our Single Audit of Family Life Academy Charter Schools, FLACS I misstated the amounts of funds to be expended in the following 30 days on FS-25. For the period from the initial advance of CSP funds to June 30, 2015, FLACS I filed six FS-25 Forms with the New York State Education Department. Our audit procedures found that funds requested in advance on two of the six forms were not fully utilized within 30 days of the filed Forms FS-25, however the amounts requested were not material. We continue to recommend that the schools only request reimbursements from CSP after the expense has been incurred, or within 30 days prior to the expenditure.

Status at June 30, 2016

During our 2016 audit, we noted all schools properly expended funds after filing form FS-25.

Procurement Procedures

During our 2012 walkthrough of procedures and testing of 41 cash disbursements, we noted the following areas where controls were not always followed as documented in the Financial Policies and Procedures Manual:

One of the disbursements had no Purchase Requisition completed or approved, but instead an order confirmation was signed after the goods had been purchased. Purchase Requisitions prevent inappropriate expenditures and help keep management informed of future cash needs.

We noted there were two invoices missing from one of the disbursement packets supporting a check that was written and paid. Without proper documentation supporting the check, management is unable to ensure the check was for appropriate expenditures. Further, it is important that invoices are signed as approved and marked as paid in order to prevent duplicate payment.

On nine invoices the general ledger codes were not always written on the face of the invoice. This is a required step for all invoices according to the Financial Policies and Procedures Manual and this procedure helps ensure that expenses are properly classified in the financial statements.

We noted in two disbursement packets there were no packing slips or other support present which indicated the goods were received. It is important the disbursement packets hold all the information as required by the Fiscal Policies and Procedures Manual.

Recommendation

We recommend disbursement packets contain all documentation as outlined in the Financial Policies and Procedures Manual. Purchase Requisitions should be completed and approved prior to the procurement of goods when possible. If goods are required to be purchased on short notice, the Charter School should make every effort to ensure the reasons for obtaining approval afterwards are adequately documented. All disbursement packets should contain proof of goods ordered and received, including invoices or other documentation from vendors to support the purchase, which are marked with the appropriate general ledger account, manually signed as approved and paid.

Status at June 30, 2013

During our 2013 walkthrough of procedures and testing of 10 cash disbursements, we noted the following:

- Four disbursements had no Purchase Requisition completed or approved.
- The FPPM requires specific approvals for reimbursements to management. There were two selections of reimbursements to the Director of Finance & Operations in which prior approval of the purchase was not obtained. There was one selection of a reimbursement to the Principal in which prior approval of the purchase from the Board Treasurer was not obtained. We recommend the Board revisit this policy regarding prior approval for members of management to ensure it is consistent with the operational goals of the School.

- The FPPM requires competitive bidding procedures for purchases exceeding \$10,000 in the aggregate. Certain exceptions from these procedures are allowed as documented in the FPPM. We noted one disbursement over \$10,000 did not have competitive bids or written evidence as to why no bids were obtained. We recommend the Charter School retain documentation of the quotes received when competitive bidding is required. In situations where competitive bidding is not required, this fact, along with the appropriate reason for exception should be documented on the purchase order or purchase request form.

Status at June 30, 2014

During our 2014 walkthrough of procedures and testing of 19 cash disbursements, we noted one instance where the Organization did not retain documentation in a situation where competitive bidding was not required because the purchase was from a “preferred vendor”. We continue to recommend that the Organization document situations in which competitive bidding is not required as outlined in the FPPM.

Status at June 30, 2015

During our 2015 walkthrough of procedures and testing of 12 cash disbursements, we noted one instance where the Organization did not document that a preferred vendor was used for a purchase instead of acquiring competitive bids. We also noted three instances where the Organization obtained approval for reimbursable expenses after the purchase was made. We continue to recommend that the Organization document in situations in which competitive bidding is not required and to have members of management obtain approval prior to making purchases to ensure it is consistent with the operational goals of the Organization. Both recommendations are outlined in the FPPM.

Status at June 30, 2016

During our 2016 walkthrough of procedures and testing of 9 cash disbursements, we noted one instance where the Organization obtained approval for the reimbursable expense after the purchase was made. In addition, we noted packing slips were maintained however not stamped or signed as received. We continue to recommend that the Organization have members of management obtain approval prior to making purchases to ensure it is consistent with the operational goals of the Organization. In addition, we recommend the Organization have representatives receiving packages sign and date the packing slips to ensure invoices being paid have been received. Both recommendations are outlined in the FPPM.

Credit Cards

During our 2012 audit, we noted the Organization is using credit cards at certain vendors for normal, recurring expenses. While credit cards do provide benefits to the Organization, they can also provide a significant opportunity for fraud if not properly monitored. Our review of one credit card statement for each vendor found the Organization is not currently following the procedures as documented in the Fiscal Policies and Procedures Manual for approval of credit card purchases. The FPPM states that the Principal should review and approve each statement, however, in practice it appears that the Director of Operations is currently fulfilling this role. In addition, one of the statements did not have documentation of approval by either the Principal or Director of Operations.

Recommendation

We recommend management review the written credit card policies in the Financial Policies and Procedures manual on an annual basis. The procedures the Organization determines are necessary to monitor credit cards should be documented and then strictly followed. Strong controls over credit card usage will protect the Organization from unauthorized or fraudulent transactions.

Status at June 30, 2013

During our 2013 audit, we noted the Director of Finance and Operations is approving the credit card statement in accordance with the FPPM, however, he is also authorizing pre-approval for credit card usage. According to the FPPM, this duty should be performed by the Principal to provide segregation of duties.

Status at June 30, 2014

No change noted.

Status at June 30, 2015

During our 2015 audit, we noted three instances where the credit card purchase request forms were not being filled out and approval was sought out after the payment was made. We continue to recommend that management follow the written credit card policies in the FPPM to protect the Organization from unauthorized or fraudulent transactions.

Status at June 30, 2016

During our 2016 audit, we noted one instance where the credit card purchase request form was not being filled out and approval was sought out after the payment was made. We continue to recommend that management follow the written credit card policies in the FPPM to protect the Organization from unauthorized or fraudulent transactions.

In-kind Donations

During our 2013 audit, we noted the Organization received donated goods and services from unrelated vendors and professionals. Donated goods or services requiring professional skills should, if possible, be valued and recorded in the appropriate period.

Recommendation

We recommend these transactions be communicated to the Director of Finance & Operations in a timely manner so they can be properly reflected in the financial statements. This communication should include a description of the transaction, as well as an estimated dollar amount as to the value of the donated goods or services.

Status at June 30, 2014

During our 2014 audit, we noted approximately \$23,000 of contributed services relating to marketing and advertising services were recorded and disclosed in the financial statements.

Status at June 30, 2015

During our 2015 audit, we noted the Organization did not record contributed services. Upon follow up with the Director of Communications and Marketing, approximately \$6,000 of contributed marketing and \$14,000 of legal services were noted. We continue to recommend the school follow up in a timely manner with regards to contributed services so they can be recorded and disclosed in the financial statements.

Status at June 30, 2016

During our 2016 audit, we noted in-kind contributions were recorded correctly.

* * * * *

We believe that the implementation of these recommendations will improve the Organization's internal control. We have already discussed these comments and suggestions with the Organization's personnel and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of Management, Finance Committee Members and Board Members and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Organization's financial statements. Should you have any questions or comments, please contact Michelle Cain or Greg Carver.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

FAMILY LIFE ACADEMY CHARTER SCHOOLS

BRONX, NEW YORK

**SCHEDULES REQUIRED BY GOVERNMENT
AUDITING STANDARDS AND THE UNIFORM
GUIDANCE**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2016



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Family Life Academy Charter Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Family Life Academy Charter Schools, which comprise the statement of financial position as of June 30, 2016 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Family Life Academy Charter Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Family Life Academy Charter Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Family Life Academy Charter Schools' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Life Academy Charter Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 12, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM:
REPORT ON INTERNAL CONTROL OVER COMPLIANCE:
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Family Life Academy Charter Schools

Report on Compliance for Each Major Federal Program

We have audited Family Life Academy Charter Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Family Life Academy Charter Schools' major federal programs for the year ended June 30, 2016. Family Life Academy Charter Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Family Life Academy Charter Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Family Life Academy Charter Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Family Life Academy Charter Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Family Life Academy Charter Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Family Life Academy Charter Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Family Life Academy Charter Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Family Life Academy Charter Schools' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance

We have audited the financial statements of Family Life Academy Charter Schools as of and for the year ended June 30, 2016, and have issued our report thereon dated October 12, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 12, 2016

FAMILY LIFE ACADEMY CHARTER SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

	Federal CFDA Number	Pass-through Grantor's Number	Total Federal Expenditures
U.S. Department of Education:			
<u>Passed through NYS Department of Education</u>			
Title I - Grants to Local Educational Agencies	84.010	0021	\$ 524,408
Title IIA - Improving Teacher Quality	84.367	0147	26,752
Title III, Part A - English Language Acquisition Grants	84.365	0293	134,376
Charter School Program - Non-State Educational Agencies (Non-SEA) Dissemination Grant	84.282C	0089	66,217
Charter School Program - State Educational Agencies (SEA) Grant	84.282A	0089	113,055
TOTAL DEPARTMENT OF EDUCATION			864,808
U.S. Department of Agriculture:			
<u>Passed through NYS Department of Education</u>			
School Breakfast Program	10.553	1000001406	138,144
National School Lunch Program	10.555	1000001406	468,908
TOTAL DEPARTMENT OF AGRICULTURE			607,052
TOTAL ALL PROGRAMS			\$ 1,471,860

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of federal awards (the “schedule”) includes the federal grant activity of Family Life Academy Charter Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

FAMILY LIFE ACADEMY CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:			
• Material weakness (es) identified?	_____	yes	_____ <u>x</u> _____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	_____ <u>x</u> _____ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	_____	yes	_____ <u>x</u> _____ no

Identification of major program:

CFDA Number:

84.010
84.367
84.365

Name of Federal Program or Cluster:

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

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?	_____	yes	_____ <u>x</u> _____ no
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FAMILY LIFE ACADEMY CHARTER SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2016

FINDING – FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT AUDIT

Finding 2015-001

Statement of condition

Material auditor adjustments were necessary.

Criteria and effect of conditions

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

Recommendation

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

Management Response

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

Current Status

During the 2016 audit, no material auditor adjustments were necessary.