

FAMILY LIFE ACADEMY CHARTER SCHOOLS

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017

(With Comparative Totals for 2016)



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, 2017, 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, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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, 2017 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, 2017

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative Totals for 2016)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 1,687,775	\$ 1,799,682
Cash in escrow	275,775	202,736
Grants and other receivables	969,168	464,979
Prepaid expenses and other current assets	<u>258,840</u>	<u>124,867</u>
TOTAL CURRENT ASSETS	3,191,558	2,592,264
 <u>PROPERTY AND EQUIPMENT, net</u>	 2,173,232	 1,464,686
 <u>OTHER ASSETS</u>		
Security deposits	296,710	228,253
Due from related parties	75,232	81,232
Certificate of deposit	197,085	-
Investment in joint venture	<u>-</u>	<u>2,475</u>
	<u>569,027</u>	<u>311,960</u>
TOTAL ASSETS	<u>\$ 5,933,817</u>	<u>\$ 4,368,910</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 310,776	\$ 258,557
Accrued payroll and benefits	804,762	801,815
Vacation accrual	261,778	189,005
Deferred revenue	<u>402,270</u>	<u>215,639</u>
TOTAL CURRENT LIABILITIES	1,779,586	1,465,016
 <u>OTHER LIABILITIES</u>		
Deferred lease incentive	396,875	100,000
Deferred rent payable	<u>1,378,793</u>	<u>488,770</u>
	1,775,668	588,770
 <u>NET ASSETS</u>		
Unrestricted	2,340,235	2,253,579
Temporarily restricted	<u>38,328</u>	<u>61,545</u>
	<u>2,378,563</u>	<u>2,315,124</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,933,817</u>	<u>\$ 4,368,910</u>

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, 2017
(With Comparative Totals for 2016)

	Year ended June 30,			2016
	2017		Total	
	Unrestricted	Temporarily restricted		
Revenue, gains and other support:				
Public school district:				
Resident student enrollment	\$ 13,485,496	\$ -	\$ 13,485,496	\$ 12,096,492
Students with disabilities	815,494	-	815,494	765,315
Grants and contracts:				
State and local	493,718	-	493,718	566,855
Federal - Title and IDEA	752,144	-	752,144	734,764
Federal - other	160,554	-	160,554	179,272
Food service/Child Nutrition Program	611,283	-	611,283	621,953
NYC DOE rental assistance	744,015	-	744,015	828,252
TOTAL REVENUE, GAINS AND OTHER SUPPORT	17,062,704	-	17,062,704	15,792,903
Expenses:				
Program services:				
Regular education	13,269,676	-	13,269,676	10,637,604
Special education	1,565,388	-	1,565,388	1,379,078
Total program services	14,835,064	-	14,835,064	12,016,682
Management and general	2,153,081	-	2,153,081	2,193,671
Fundraising and special events	175,419	-	175,419	152,756
TOTAL OPERATING EXPENSES	17,163,564	-	17,163,564	14,363,109
(DEFICIT) SURPLUS FROM SCHOOL OPERATIONS	(100,860)	-	(100,860)	1,429,794
Support and other revenue:				
Contributions:				
Foundations	24,305	61,245	85,550	80,000
Individuals	1,000	-	1,000	78
Corporations	2,956	-	2,956	7,500
In-kind	32,728	-	32,728	550
Fundraising	7,784	-	7,784	10,278
Interest income	18,167	-	18,167	8,740
Other income	17,306	-	17,306	170
Net assets released from restriction	84,462	(84,462)	-	-
TOTAL SUPPORT AND OTHER REVENUE	188,708	(23,217)	165,491	107,316
LOSS FROM JOINT VENTURE	(1,192)	-	(1,192)	(298,283)
CHANGE IN NET ASSETS	86,656	(23,217)	63,439	1,238,827
Net assets at beginning of year	2,253,579	61,545	2,315,124	1,076,297
NET ASSETS AT END OF YEAR	<u>\$ 2,340,235</u>	<u>\$ 38,328</u>	<u>\$ 2,378,563</u>	<u>\$ 2,315,124</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	No. of Positions	Year ended June 30,							2016 Total
		2017			2017			Total	
		Program Services		Sub-total	Supporting Services		Sub-total		
Regular Education	Special Education	Management and general	Fundraising and special events						
Personnel services costs:									
Administrative staff personnel	43	\$ 1,744,736	\$ 205,583	\$ 1,950,319	\$ 1,069,901	\$ 147,686	\$ 1,217,587	\$ 3,167,906	\$ 2,874,704
Instructional personnel	93	4,518,242	525,390	5,043,632	-	-	-	5,043,632	4,389,836
Non-instructional personnel	35	671,930	79,181	751,111	64,425	-	64,425	815,536	610,385
Total personnel services costs	171	6,934,908	810,154	7,745,062	1,134,326	147,686	1,282,012	9,027,074	7,874,925
Fringe benefits and payroll taxes		1,151,362	134,009	1,285,371	167,036	21,000	188,036	1,473,407	1,295,650
Retirement		120,887	14,212	135,099	29,832	4,260	34,092	169,191	76,806
Legal service		-	-	-	2,723	-	2,723	2,723	8,717
Accounting / audit services		-	-	-	54,872	-	54,872	54,872	119,775
Other purchased / professional / consulting services		158,826	19,520	178,346	107,443	-	107,443	285,789	366,231
Building and land rent / lease		2,566,830	312,991	2,879,821	174,698	-	174,698	3,054,519	1,727,979
Repairs and maintenance		288,829	34,245	323,074	24,419	-	24,419	347,493	433,417
Insurance		969	116	1,085	105,198	-	105,198	106,283	82,879
Utilities		222,033	26,159	248,192	8,555	-	8,555	256,747	231,546
Supplies / materials		449,328	51,989	501,317	-	-	-	501,317	332,550
Equipment / furnishings		8,156	1,002	9,158	1,074	-	1,074	10,232	10,068
Staff development		227,613	26,851	254,464	18,861	-	18,861	273,325	204,290
Marketing / recruitment		10,031	1,197	11,228	11,363	-	11,363	22,591	14,573
Technology		60,855	7,274	68,129	120,706	-	120,706	188,835	193,257
Food services		465,486	54,419	519,905	-	-	-	519,905	593,566
Student services		95,714	11,178	106,892	-	-	-	106,892	129,624
Office expense		79,746	9,583	89,329	168,761	2,473	171,234	260,563	227,144
Depreciation and amortization		431,727	50,504	482,231	19,333	-	19,333	501,564	428,859
Other		(3,624)	(15)	(3,639)	3,881	-	3,881	242	11,253
		\$ 13,269,676	\$ 1,565,388	\$ 14,835,064	\$ 2,153,081	\$ 175,419	\$ 2,328,500	\$ 17,163,564	\$ 14,363,109

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	Year ended June 30,	
	2017	2016
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 63,439	\$ 1,238,827
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	501,564	428,859
Loss from joint venture	1,192	298,283
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(504,189)	(207,496)
Prepaid expenses and other current assets	(133,973)	(71,775)
Security deposits	(68,457)	44,000
Accounts payable and accrued expenses	52,219	(174,025)
Accrued payroll and benefits	2,947	92,111
Vacation accrual	72,773	(96,005)
Deferred revenue	186,631	101,767
Deferred lease incentive	296,875	-
Deferred rent payable	890,023	98,840
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,361,044	1,753,386
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(1,210,110)	(694,352)
Purchase of certificate of deposit	(197,085)	-
Change in due from related parties	6,000	680,047
Change in cash in escrow	(73,039)	(25,680)
Distribution from joint venture	1,283	30,000
NET CASH USED FOR INVESTING ACTIVITIES	(1,472,951)	(9,985)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments of long-term debt	-	(235,911)
NET CASH USED FOR FINANCING ACTIVITIES	-	(235,911)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(111,907)	1,507,490
Cash and cash equivalents at beginning of year	1,799,682	292,192
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,687,775	\$ 1,799,682

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

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative Totals for 2016)

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. On March 8, 2017, FLACS II obtained a five year renewal, which currently expires July 31, 2022.

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.

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, 2017

(With Comparative Totals for 2016)

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, 2017 and 2016.

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, 2017 and 2016 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, 2017

(With Comparative Totals for 2016)

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

Cash and cash equivalents

Cash and cash equivalents 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 and cash equivalents.

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 2018.

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, 2017 or 2016.

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

Certificate of deposit

The Organization maintains its certificate of deposit at a financial institution. The balance is insured at the financial institution up to \$250,000 by the FDIC. At times the Organization's balance may exceed federally insured limits. The Organization has not experienced any losses in such account and does not believe it is exposed to any significant risk. Certificate of deposit has a maturity date of July 2018.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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

Tax exempt status

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

The Organization files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the Organization believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

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 professional development and programming services and contributed goods which were valued at approximately \$32,730 and \$550 for the years ended June 30, 2017 and 2016, respectively. These amounts are included in in-kind revenue in the accompanying statement of activities and changes in net assets.

Marketing costs

The Organization expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$23,000 and \$15,000 for the years ended June 30, 2017 and 2016, respectively.

Reclassifications

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

Comparative information for the year ended June 30, 2016

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, 2016 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, 2017, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note B and Note E.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

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 \$1,435,395 from FLACS I, \$908,646 from FLACS II, and \$614,408 from FLACS III for the year ended June 30, 2017. 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.

Classrooms and office facilities of FLACS I are leased from LPAC, whose President is a member of the Board of the Organization. See Note E for further details and future minimum lease payments. During the years ended June 30, 2017 and 2016, the Organization had approximately \$75,000 and \$81,000, respectively, of receivables from LPAC.

During 2013 the Organization and LPAC entered into a joint venture to purchase a building, which was sold during January 2016. The Organization transferred and assigned all of its membership interest in the joint venture to LPAC in November 2016. See Note I for further information.

As part of the joint venture mentioned above, the Organization became a guarantor of a mortgage in the name of LPAC. 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, 2017 and 2016, the outstanding balance of the mortgage note is approximately \$1,697,000 and \$1,748,000, respectively. At June 30, 2017 and 2016, the maximum amount of future payments (undiscounted) the Organization could be required to make under the guarantee is \$2,529,000 and \$2,693,000, respectively.

During August 2017, the Organization became the guarantor of multiple loans of CG Educational Holdings, Inc. ("CG"). Prior to November 2016, the Organization held a membership interest in CG; however, in November 2016, the Organization transferred and assigned its membership interest to LPAC; therefore, CG is now wholly owned by LPAC. The loans are for the acquisition and remodeling of a building that will eventually become a middle school leased to FLACS II, see Note E for more information. The aggregate principal balance of the loans as of August 11, 2017 was approximately \$30,973,000. The Organization's guaranty shall never be greater than 10% of the total development cost, which as of August 11, 2017, was approximately \$30,973,000. At August 11, 2017, the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee is approximately \$3,097,300. The term of the guarantee on the loans is through the end of the lease which is expected to be in 2037; however, if the Organization meets certain conditions, they can be released from the guaranty prior to the end of the lease. The Organization fully expects this debt will be repaid by CG in accordance with its terms.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 3,461,464	\$ 2,734,003
Furniture and fixtures	1,026,276	817,574
Computers and equipment	<u>1,342,837</u>	<u>1,068,890</u>
	5,830,577	4,620,467
Less accumulated depreciation and amortization	<u>3,657,345</u>	<u>3,155,781</u>
	<u>\$ 2,173,232</u>	<u>\$ 1,464,686</u>

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. At June 30, 2017, \$448,318 of construction in progress was included in leasehold improvements; which was mainly for improvements to the FLACS II facility expected to be utilized in the 2018 school year.

At June 30, 2016, \$142,295 of construction in progress was included in leasehold improvements; which was mainly for improvements to the FLACS III facility that were 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. Total depreciation and amortization expense was \$501,564 and \$428,859 for the years ended June 30, 2017 and 2016, respectively.

NOTE D: OPERATING LEASES

The Organization leases office equipment under non-cancelable lease agreements expiring at various dates through June 2022. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 69,573
2019	69,573
2020	69,573
2021	69,573
2022	<u>69,573</u>
	<u>\$ 347,865</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE E: SCHOOL FACILITIES

FLACS I leased classrooms and office facilities under a non-cancelable lease agreement originally expiring in June 2018. The lease was amended effective September 1, 2016 with an expiration date of June 30, 2022 and a revised payment schedule. FLACS I's base rent for the years ended June 30, 2017 and 2016 was \$902,767 and \$720,000, respectively. The base rent increased 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, 2017 and 2016. Rent expense relative to this lease was \$950,162 and \$733,590 for the years ended June 30, 2017 and 2016, respectively. In conjunction with this facility leases, FLACS I paid a security deposit of \$155,833 and \$89,376, which is included in security deposits on the accompanying statement of financial position at June 30, 2017 and 2016, respectively.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 953,700
2019	982,311
2020	1,011,780
2021	1,037,811
2022	<u>1,068,947</u>
	<u>\$ 5,054,549</u>

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 years ended June 30, 2017 and 2016 was \$526,899 and \$506,634, respectively. The base rent increased 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, 2017 and 2016. 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. During the year ended June 30, 2017 and 2016, \$344,122 and \$100,000 had been advanced to FLACS II, respectively, and are recorded as a "Deferred lease incentive" on the accompanying statement of financial position at June 30, 2017 and 2016. These reimbursements will be recognized as a reduction of rent expense on a straight line basis over the term of the lease. Rent expense relative to this lease was \$756,053 and \$799,806 for the years ended June 30, 2017 and 2016, respectively. 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, 2017 and 2016.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE E: SCHOOL FACILITIES, Cont'd

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 547,975
2019	569,894
2020	592,690
2021	616,397
2022	641,053
Thereafter	<u>14,550,315</u>
	<u>\$ 17,518,324</u>

On August 11, 2017, FLACS II signed a lease agreement with CG for a new middle school building as described in Note B. The lease has a twenty year term upon completion of the building, and payments are to be determined upon completion of the building.

Prior to the sale of the building in January 2016, as described in Note I, FLACS III leased elementary school classrooms and office facilities scheduled through June 2019. Upon sale of the building in January 2016, FLACS III entered into a new lease with an unrelated party for the elementary school classrooms and office facilities. The lease became effective on August 12, 2016, the day the certificate of occupancy was obtained. The lease has an expiration date of August 11, 2036 and a revised payment schedule. FLACS III's base rent for the years ended June 30, 2017 and 2016 was \$606,208 and \$504,000, respectively. The base rent increased 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 was credited or charged to "Deferred rent payable" in the accompanying statement of financial position at June 30, 2017 and 2016. Rent expense relative to these two leases was \$1,175,932 and \$95,399 for the years ended June 30, 2017 and 2016, respectively. In conjunction with the original facility lease, FLACS III paid a security deposit of \$42,000. The security deposit was returned to FLACS III in full during 2016.

The total lease expense for all these leases, as outlined above, was approximately \$2,882,000 and \$1,639,000 for the years ended June 30, 2017 and 2016, respectively.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE E: SCHOOL FACILITIES, Cont'd

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 985,886
2019	1,015,462
2020	1,045,926
2021	1,077,304
2022	1,109,623
Thereafter	<u>19,816,287</u>
	<u>\$ 25,050,488</u>

NOTE F: RETIREMENT PLAN

The Organization sponsors a 401(k) plan (the "Plan") for all eligible employees that are predominantly funded by employees' contributions. During the year ended June 30, 2016, the Organization matched employees' contributions up to 3% of their annual salary. During the year ended June 30, 2017, the Organization matched employees' contributions up to 5% of their annual salary. During the years ended June 30, 2017 and 2016, the Organization contributed approximately \$160,900 and \$70,000, respectively, to the Plan.

NOTE G: 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 H: CONCENTRATIONS

At June 30, 2017, approximately 100% 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, 2017, 84% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Organization's students are located.

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.

FAMILY LIFE ACADEMY CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE I: 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 had 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. On November 17, 2016, the Organization entered into a transfer, assignment and redemption agreement that transferred all their membership interest in CG to LPAC.

Following is a summary of the financial position and results of operations of the joint venture as of and for the period from July 1, 2016 to November 17, 2016 and the year ended June 30, 2016, respectively:

	<u>November 17,</u> <u>2016</u>	<u>2016</u>
<u>Statement of Financial Position</u>		
Total assets	\$ -	\$ 4,950
Total liabilities	<u>-</u>	<u>-</u>
Net assets	-	4,950
FLACS share of net assets	\$ -	\$ 2,475
<u>Statement of Activities</u>		
Revenue	\$ -	\$ 1,112,243
Expenses	<u>2,385</u>	<u>1,708,808</u>
Change in net assets	(2,385)	(596,565)
Distributions	<u>1,283</u>	<u>60,000</u>
Change in net assets, after distributions	\$ (3,668)	\$ (656,565)

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 FLACS III began occupying the space at the beginning of the school year. For the year ended June 30, 2016, FLACS III paid a total of \$95,399 for rental of the property to CG. On the accompanying statement of financial position at June 30, 2016, \$142,044 was classified as leasehold improvements.

As part of the initial purchase of the property, the Organization became a guarantor of mortgage entered into by CG. That mortgage was repaid in full during 2016 in conjunction with the sale of the building.

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.

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.

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, 2017, and have issued our report thereon dated October 12, 2017, 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, 2017, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 12, 2017

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2017

<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 and cash equivalents	\$ 1,388,497	\$ 52,967	\$ 227,365	\$ 18,946	\$ -	\$ 1,687,775
Cash in escrow	175,189	100,586	-	-	-	275,775
Grants and other receivables	459,915	258,780	235,373	15,100	-	969,168
Interschool receivables	-	-	99,773	86,455	(186,228)	-
Prepaid expenses and other current assets	66,263	99,233	79,764	13,580	-	258,840
TOTAL CURRENT ASSETS	2,089,864	511,566	642,275	134,081	(186,228)	3,191,558
<u>PROPERTY AND EQUIPMENT, net</u>	303,712	1,260,504	530,685	78,331	-	2,173,232
<u>OTHER ASSETS</u>						
Security deposits	155,833	140,877	-	-	-	296,710
Due from related parties	75,232	-	-	-	-	75,232
Certificate of deposit	197,085	-	-	-	-	197,085
	428,150	140,877	-	-	-	569,027
TOTAL ASSETS	\$ 2,821,726	\$ 1,912,947	\$ 1,172,960	\$ 212,412	\$ (186,228)	\$ 5,933,817

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION BY CHARTER

JUNE 30, 2017

<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	\$ 139,808	\$ 56,980	\$ 39,176	\$ 74,812	\$ -	\$ 310,776
Interschool payables	37,355	148,873	-	-	(186,228)	-
Accrued payroll and benefits	374,049	215,508	144,267	70,938	-	804,762
Vacation accrual	74,413	83,679	40,458	63,228	-	261,778
Deferred revenue	-	-	402,270	-	-	402,270
TOTAL CURRENT LIABILITIES	625,625	505,040	626,171	208,978	(186,228)	1,779,586
<u>OTHER LIABILITIES</u>						
Deferred lease incentive	-	396,875	-	-	-	396,875
Deferred rent payable	86,664	722,405	569,724	-	-	1,378,793
	86,664	1,119,280	569,724	-	-	1,775,668
<u>NET ASSETS</u>						
Unrestricted	2,076,069	288,627	(27,895)	3,434	-	2,340,235
Temporarily restricted	33,368	-	4,960	-	-	38,328
	2,109,437	288,627	(22,935)	3,434	-	2,378,563
TOTAL LIABILITIES AND NET ASSETS	\$ 2,821,726	\$ 1,912,947	\$ 1,172,960	\$ 212,412	\$ (186,228)	\$ 5,933,817

FAMILY LIFE ACADEMY CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2017

	<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	\$ 6,524,103	\$ 4,148,980
Students with disabilities	486,391	188,838
Grants and contracts:		
State and local	246,440	147,499
Federal - Title and IDEA	441,187	181,660
Federal - other	6,499	18,851
Food service/Child Nutrition Program	288,181	222,688
NYC DOE rental assistance	-	387,776
	<hr/>	<hr/>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	7,992,801	5,296,292
Expenses:		
Program services:		
Regular education	6,078,507	4,000,443
Special education	660,381	471,965
Total program services	6,738,888	4,472,408
Management and general	984,620	633,196
Fundraising and special events	84,405	52,701
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	7,807,913	5,158,305
SURPLUS / (DEFICIT) FROM SCHOOL OPERATIONS	184,888	137,987
Support and other revenue:		
Contributions:		
Foundations	82,096	1,000
Individuals	-	1,000
Corporations	2,956	-
In-kind	16,694	-
Management fee income	-	-
Fundraising	1,294	2,021
Interest income	13,066	1,493
Other income	596	15,175
	<hr/>	<hr/>
TOTAL SUPPORT AND OTHER REVENUE	116,702	20,689
LOSS FROM JOINT VENTURE	<u>(1,192)</u>	<u>-</u>
CHANGE IN NET ASSETS	300,398	158,676
Net assets at beginning of year	<u>1,809,039</u>	<u>129,951</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,109,437</u>	<u>\$ 288,627</u>

<u>Family Life Academy Charter School III</u>	<u>Family Life Academy Charter School Network</u>	<u>Eliminations</u>	<u>Total</u>
\$ 2,812,413	\$ -	\$ -	\$ 13,485,496
140,265	-	-	815,494
99,779	-	-	493,718
129,297	-	-	752,144
135,204	-	-	160,554
100,414	-	-	611,283
<u>356,239</u>	<u>-</u>	<u>-</u>	<u>744,015</u>
3,773,611	-	-	17,062,704
3,164,276	1,402,129	(1,375,679)	13,269,676
<u>428,458</u>	<u>167,299</u>	<u>(162,715)</u>	<u>1,565,388</u>
3,592,734	1,569,428	(1,538,394)	14,835,064
527,322	1,256,408	(1,248,465)	2,153,081
<u>35,639</u>	<u>174,264</u>	<u>(171,590)</u>	<u>175,419</u>
<u>4,155,695</u>	<u>3,000,100</u>	<u>(2,958,449)</u>	<u>17,163,564</u>
(382,084)	(3,000,100)	2,958,449	(100,860)
2,454	-	-	85,550
-	-	-	1,000
-	-	-	2,956
16,034	-	-	32,728
-	2,958,449	(2,958,449)	-
-	4,469	-	7,784
2,964	644	-	18,167
<u>1,535</u>	<u>-</u>	<u>-</u>	<u>17,306</u>
<u>22,987</u>	<u>2,963,562</u>	<u>(2,958,449)</u>	<u>165,491</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,192)</u>
(359,097)	(36,538)	-	63,439
<u>336,162</u>	<u>39,972</u>	<u>-</u>	<u>2,315,124</u>
<u>\$ (22,935)</u>	<u>\$ 3,434</u>	<u>\$ -</u>	<u>\$ 2,378,563</u>

FAMILY LIFE ACADEMY CHARTER SCHOOLS

ADVISORY COMMENT LETTER

JUNE 30, 2017



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 12, 2017

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, 2017, 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. 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 do not consider the following matters to be significant deficiencies or material weaknesses.

Special Education Per Pupil Billing

During our 2017 audit, we noted one instance of a student whose Individualized Education Plan (IEP) required they receive special education services for between 20-60 percent of their day. The student was incorrectly billed by the Charter School in the “60% or more” category. The amount overbilled is insignificant to the financial statements as a whole and appears to be an isolated incident.

Recommendation

We recommend the Charter School ensure all students are properly billed for based on the services that are required under the IEP and be involved in the approval process of the bi-monthly and annual invoice sent to the New York City Department of Education.

We have updated the status of the following comments and recommendations that were communicated to management in our letter dated October 12, 2016 in conjunction with the audit of the financial statements for the year ended June 30, 2016.

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 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.

Status at June 30, 2017

During our 2017 walkthrough of procedures and testing of 6 cash disbursements, we noted one instance where the Organization obtained approval for the reimbursable expense after the purchase was made. 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. This recommendation is 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.

Status at June 30, 2017

During our 2017 audit, we noted the Organization appeared to be following its procedures over credit card transactions.

* * * * *

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, 2017



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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, 2017 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, 2017.

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, Baw & Co. LLP

Rochester, New York
October 12, 2017

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, 2017. 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, 2017.

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 to determine the 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 and therefore, material weaknesses or significant deficiencies 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, 2017, and have issued our report thereon dated October 12, 2017, 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, 2017

FAMILY LIFE ACADEMY CHARTER SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

	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	\$ 530,689
Title IIA - Improving Teacher Quality	84.367	0147	17,562
Title III, Part A - English Language Acquisition Grants	84.365	0293	140,706
Charter School Program - Non-State Educational Agencies (Non-SEA) Dissemination Grant	84.282C	0089	6,499
Charter School Program - State Educational Agencies (SEA) Grant	84.282A	0089	118,801
TOTAL DEPARTMENT OF EDUCATION			814,257
U.S. Department of Agriculture:			
<u>Passed through NYS Department of Education</u>			
School Breakfast Program	10.553	1000001406	143,441
National School Lunch Program	10.555	1000001406	452,035
TOTAL DEPARTMENT OF AGRICULTURE			595,476
TOTAL ALL PROGRAMS			\$ 1,409,733

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 (CFR) 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 has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

FAMILY LIFE ACADEMY CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

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
84.365

Name of Federal Program or Cluster:

Title I - Grants to Local Educational Agencies
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, 2017

FINDING – FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.