

FAMILY LIFE ACADEMY CHARTER SCHOOL II

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Family Life Academy Charter School II

Report on the Financial Statements

We have audited the accompanying financial statements of Family Life Academy Charter School II, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period from September 13, 2011 (date of inception) to June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Life Academy Charter School II as of June 30, 2013, and the changes in its net assets and its cash flows for the period from September 13, 2011 (date of inception) to June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Report Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013 on our consideration of Family Life Academy Charter School II's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Family Life Academy Charter School II's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 23, 2013

FAMILY LIFE ACADEMY CHARTER SCHOOL II

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

ASSETS

CURRENT ASSETS

Cash	\$ 6,343
Grants and other receivables	31,301
Prepaid expenses and other current assets	355
Security deposit	<u>50,000</u>
TOTAL CURRENT ASSETS	87,999

PROPERTY AND EQUIPMENT, net

191,288
<u>TOTAL ASSETS \$ 279,287</u>

LIABILITIES AND DEFICIENCY IN NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 200,340
Vacation accrual	16,346
Deferred revenue	<u>88,797</u>
TOTAL CURRENT LIABILITIES	305,483

DEFICIENCY IN NET ASSETS, unrestricted

(26,196)
<u>TOTAL LIABILITIES AND DEFICIENCY IN NET ASSETS \$ 279,287</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOL II

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM SEPTEMBER 13, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013

Operating revenue and support:		
State and local per pupil operating revenue		\$ 1,407,373
Federal grants		612,001
State and local grants		184,140
Individuals and corporations		65
Fundraising		2,773
Interest income		286
Other income		<u>1,049</u>
	TOTAL OPERATING REVENUE AND SUPPORT	2,207,687
Expenses:		
Program:		
Regular education		1,544,856
Special education		198,416
Management and general		482,964
Fundraising and special events		<u>7,647</u>
	TOTAL EXPENSES	2,233,883
	CHANGE IN NET ASSETS	(26,196)
Net assets at beginning of period		<u>-</u>
UNRESTRICTED DEFICIENCY IN NET ASSETS AT END OF PERIOD		<u>\$ (26,196)</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOL II

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM SEPTEMBER 13, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013

	Program Services			Supporting Services		
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total
Personnel services costs:						
Administrative staff personnel	\$ 193,628	\$ 24,869	\$ 218,497	\$ 200,172	\$ -	\$ 200,172
Instructional personnel	437,120	56,142	493,262	-	-	-
Non-instructional personnel	43,526	5,590	49,116	-	-	-
Total personnel services costs	674,274	86,601	760,875	200,172	-	200,172
Payroll taxes and fringe benefits	100,059	12,851	112,910	29,705	-	29,705
Retirement	4,032	518	4,550	1,197	-	1,197
Legal service	-	-	-	10,659	-	10,659
Accounting and audit services	-	-	-	94,968	-	94,968
Other purchased / professional / consulting services	156,339	20,080	176,419	13,139	-	13,139
Building and land rent / lease	225,393	28,949	254,342	66,913	-	66,913
Repairs and maintenance	10,922	1,403	12,325	3,243	-	3,243
Insurance	10,705	1,375	12,080	3,179	-	3,179
Utilities	17,352	2,229	19,581	5,152	-	5,152
Supplies and materials	101,262	13,005	114,267	-	-	-
Equipment and furnishings	-	-	-	10,720	-	10,720
Staff development	15,747	2,023	17,770	-	-	17,770
Marketing and recruitment	3,041	391	3,432	683	300	983
Technology	54,042	6,941	60,983	16,044	-	16,044
Food services	80,104	10,288	90,392	-	-	-
Office expense	29,590	3,800	33,390	8,786	-	8,786
Depreciation and amortization	61,994	7,962	69,956	18,404	-	18,404
Miscellaneous	-	-	-	-	7,347	7,347
	\$ 1,544,856	\$ 198,416	\$ 1,743,272	\$ 482,964	\$ 7,647	\$ 490,611
						\$ 2,233,883

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

FAMILY LIFE ACADEMY CHARTER SCHOOL II

STATEMENT OF CASH FLOWS

PERIOD FROM SEPTEMBER 13, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ (26,196)
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation and amortization	88,360
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	(31,301)
Prepaid expenses and other current assets	(355)
Security deposit	(50,000)
Accounts payable and accrued expenses	200,340
Vacation accrual	16,346
Deferred revenue	<u>88,797</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	285,991

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	<u>(279,648)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(279,648)</u>

NET INCREASE IN CASH 6,343

Cash at beginning of period	<u>-</u>
CASH AT END OF PERIOD	<u>\$ 6,343</u>

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

FAMILY LIFE ACADEMY CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

The Charter School

Family Life Academy Charter School II (the "Charter School") is an educational corporation operating as a charter school 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 the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The Charter School, a school in a predominately Latino Community in the South Bronx, seeks to empower all of its K-8 students, regardless of race, ethnicity, country of origin, socioeconomic status, and/or English language proficiency, to demonstrate mastery of the New York State standards, help them take responsibility for their own learning, and encourage them to explore and affirm human values. The Charter School seeks to establish an orderly, nurturing, dynamic and safe environment in which learning is engaging, meaningful, and joyful in preparing students to attend and successfully complete high school and college.

Financial Statement presentation

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

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2013.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter had no temporarily restricted net assets at June 30, 2013.

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

FAMILY LIFE ACADEMY CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013

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

Revenue and support recognition

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

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

Contributions

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

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

Cash

Cash balances are maintained at 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 Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2013.

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 seven years.

Deferred revenue

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

FAMILY LIFE ACADEMY CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013

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

Tax exempt status

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

The Charter School has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Charter School files Form 990 in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2012 through 2013 are still subject to potential audit by the IRS. Management of the Charter School believes they have no material uncertain tax positions and, accordingly, will not recognize any liability for unrecognized tax benefits.

Contributed services

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

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$4,000 for the period from September 13, 2011 (date of inception) to June 30, 2013.

Other services provided by a local district

The Charter School received transportation services, special education services and nursing services from the local district. The Charter School was unable to determine a value for these services.

Use of estimates in the preparation of financial statements

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

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 23, 2013, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

FAMILY LIFE ACADEMY CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Leasehold improvements	\$ 95,254
Furniture and fixtures	52,068
Computers and equipment	<u>132,326</u>
	279,648
Less accumulated depreciation and amortization	<u>88,360</u>
	<u>\$ 191,288</u>

Total depreciation and amortization expense was \$88,360 for the period from September 13, 2011 (date of inception) to June 30, 2013.

NOTE C: SCHOOL FACILITY

During August 2012 the Charter School entered into a non-cancelable lease agreement for classrooms and office facilities expiring in January 2014. The Charter School paid a \$50,000 security deposit relating to this lease. Rent for this lease is \$25,000 a month. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2014	<u>\$ 175,000</u>

Rent expense incurred for the period from September 13, 2011 (date of inception) to June 30, 2013 was \$275,000.

NOTE D: OPERATING LEASES

The Charter School leases office equipment under a non-cancelable lease agreement expiring in September 2014. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2014	\$ 5,702
2015	<u>1,426</u>
	<u>\$ 7,128</u>

FAMILY LIFE ACADEMY CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013

NOTE E: RETIREMENT PLAN

The Charter School sponsors a 401(k) plan (the "Plan") for all eligible employees that is predominantly funded by employees' contributions. The Charter School matches employees' contributions up to 3% of their annual salary. During the period from September 13, 2011 (date of inception) to June 30, 2013, the Charter School contributed approximately \$6,000 to the Plan.

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE G: CONCENTRATIONS

At June 30, 2013, approximately 57% and 43% of grants and other receivables are due from a grantor and the New York State Department of Education relating to certain grants, respectively.

During the period from September 13, 2011 (date of inception) to June 30, 2013 approximately 64% of total operating revenue and support came from per pupil revenue. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE H: MAJOR GRANTOR

One federal start-up grant accounted for over 21% of total operating revenue and support for the period from September 13, 2011 (date of inception) to June 30, 2013.

NOTE I: COMMITMENT

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

FAMILY LIFE ACADEMY CHARTER SCHOOL II

OTHER FINANCIAL INFORMATION



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Family Life Academy Charter School II

We have audited the financial statements of Family Life Academy Charter School II as of June 30, 2013 and for the period from September 13, 2011 (date of inception) to June 30, 2013, and have issued our report thereon dated October 23, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The 2013 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 as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 23, 2013

FAMILY LIFE ACADEMY CHARTER SCHOOL II
SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2013 AND THE PERIOD FROM
SEPTEMBER 13, 2011 (DATE OF INCEPTION) TO JUNE 30, 2012

	Year ended June 30, 2013	Period from September 13, 2011 (date of inception) to June 30, 2012	Total
State and local per pupil operating revenue	\$ 1,407,373	\$ -	\$ 1,407,373
Federal grants	445,501	166,500	612,001
State and local grants	184,140	-	184,140
Individuals and corporations	65	-	65
Fundraising	2,773	-	2,773
Interest income	245	41	286
Other income	1,049	-	1,049
TOTAL OPERATING REVENUE AND SUPPORT	2,041,146	166,541	2,207,687
Personnel services costs:			
Administrative staff personnel	418,669	-	418,669
Instructional personnel	493,262	-	493,262
Non-instructional personnel	49,116	-	49,116
Total personnel services costs	961,047	-	961,047
Payroll taxes and fringe benefits	138,942	3,673	142,615
Retirement	5,747	-	5,747
Legal service	10,659	-	10,659
Accounting and audit services	74,968	20,000	94,968
Other purchased / professional / consulting services	98,046	91,512	189,558
Building and land rent / lease	321,255	-	321,255
Repairs and maintenance	15,568	-	15,568
Insurance	13,663	1,596	15,259
Utilities	24,733	-	24,733
Supplies and materials	114,267	-	114,267
Equipment and furnishings	10,720	-	10,720
Staff development	17,770	-	17,770
Marketing and recruitment	2,900	1,515	4,415
Technology	77,027	-	77,027
Food services	90,392	-	90,392
Office expense	42,011	165	42,176
Depreciation and amortization	88,360	-	88,360
Miscellaneous	5,925	1,422	7,347
TOTAL EXPENSES	2,114,000	119,883	2,233,883
CHANGE IN NET ASSETS	\$ (72,854)	\$ 46,658	\$ (26,196)

FAMILY LIFE ACADEMY CHARTER SCHOOL II

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



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 School II

We have audited 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, the financial statements of Family Life Academy Charter School II, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period from September 13, 2011 (date of inception) to June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated October 23, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Family Life Academy Charter School II's 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 School II's internal control. Accordingly, we do not express an opinion on the effectiveness of Family Life Academy Charter School II'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 or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2013-001 and 2013-002 to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Life Academy Charter School II's financial statements are free from 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-001.

We noted certain matters that we reported to management of Family Life Academy Charter School II in a separate letter dated October 23, 2013.

Family Life Academy Charter School II's Response to Findings

Family Life Academy Charter School II's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Family Life Academy Charter School II's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Restricted Use

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, the State University of New York, the New York State Education Department and others within the Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 23, 2013

FAMILY LIFE ACADEMY CHARTER SCHOOL II

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE PERIOD FROM SEPTEMBER 13, 2011 (Date of Inception) TO JUNE 30, 2013

Finding 2013-001

Statement of condition

The Charter School 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 the Charter School 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.

Criteria and effect of conditions

For the period from the initial advance of CSP funds to June 30, 2013, the Charter School 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 the Charter School 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 the Charter School 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 the Charter School was in compliance with the CSP grant in the aggregate by the end of the grant period ended August 31, 2013; however, we have not audited this information.

Recommendation

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

Management response

Although the finding states that discrepancies were found during the time of testing, at the time of submission for each of the forms, these discrepancies did not exist. When the FS-25 forms were submitted, grant specific expenses had been identified and reconciled to the number reported on the form. Due to the realization of other grants later in the year that utilized similar expenses in more stringent time frames, management was forced to reallocate previously identified expenses under CSP to other grants. Management also submitted a FS-10A (reallocation request form) to repurpose CSP grant funding towards other applicable expenses not previously illustrated through the initial CSP grant budget.

Due to the reallocation of expenses as well as identifying new expenses towards the CSP grant, this caused the perceived discrepancy between the previously reported expenditures and the updated expenses that were identified towards the grant in the accounting system. Management was able to capture accurately the total amount of expenses illustrated per the last FS-25 submission, as well as capturing all applicable expenditures per the grant to fulfill all requirements and submit the final FS-10F financial report form to the state at the end of the grant period, August 31, 2013.

Management disagrees with the auditors' claim of the above being a material weakness based on the circumstances of the situation but acknowledges the auditors' findings based on their testing criteria.

Management will incorporate supporting documentation as part of their submission process to validate initial submission of these forms.

FAMILY LIFE ACADEMY CHARTER SCHOOL II

SCHEDULE OF FINDINGS AND RESPONSES, Cont'd

FOR THE PERIOD FROM SEPTEMBER 13, 2011 (Date of Inception) TO JUNE 30, 2013

Finding 2013-002

Statement of condition

There were a number of cutoff issues in the Charter School's accounts payable records.

Criteria and effect of conditions

During our audit, we noted several instances where the Charter School had recorded payables for classroom supplies that were actually only intended to be a quote for cash flow purposes, and did not represent valid payables as of the end of the year. This resulted in an overstatement of accounts payable and expenses for the year.

During our audit, we also noted one instance where an invoice had not been properly accrued at the end of the year but should have been. This was due to the invoice being sent to a location other than the Charter School. This resulted in an understatement of accounts payable and expenses for the year.

Both of these issues, if undetected, could grossly overstate or understate payables and expenses which could have a material effect on the financial statements.

Recommendation

We recommend the accounting department ensure that accounts payable contain valid payables, and that all invoices are properly recorded on a monthly basis.

Management response

Management is in agreement and will ensure that proper controls are implemented.