

**HEBREW LANGUAGE ACADEMY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR' S REPORTS**

JUNE 30, 2014 AND 2013

**HEBREW LANGUAGE ACADEMY
CHARTER SCHOOL**

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Independent Auditor's Report

Board of Trustees Hebrew Language Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Hebrew Language Academy Charter School, which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 Hebrew Language Academy Charter School as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2014 on our consideration of Hebrew Language Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hebrew Language Academy Charter School's internal control over financial reporting and compliance.

Loeb & Troper LLP

August 28, 2014

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 1,007,640	\$ 497,965
Escrow deposits (Note 2)	70,442	70,302
Accounts receivable	49,167	274,494
Prepaid expenses and other assets	83,856	76,741
Fixed assets - net (Note 3)	<u>325,346</u>	<u>336,090</u>
Total assets	<u>\$ 1,536,451</u>	<u>\$ 1,255,592</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 236,385	\$ 375,808
Accrued salaries and related liabilities	539,116	536,553
Deferred rent		250,000
Capital lease payable (Note 4)	<u>1,440</u>	<u>5,749</u>
Total liabilities	776,941	1,168,110
Net assets - unrestricted (Exhibit B)	<u>759,510</u>	<u>87,482</u>
Total liabilities and net assets	<u>\$ 1,536,451</u>	<u>\$ 1,255,592</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
State and local per-pupil operating revenues	\$ 7,040,587	\$ 5,705,863
Government grants and contracts	416,257	609,927
Foundations and corporate contributions	21,370	6,367
In-kind contributions (Note 5)	158,271	312,304
Other revenues	12,621	18,630
	<u>7,649,106</u>	<u>6,653,091</u>
Total operating revenues		
Expenses (Exhibit C)		
Program services		
General education	5,362,640	5,094,794
Special education	948,879	868,590
	<u>6,311,519</u>	<u>5,963,384</u>
Total program services		
Supporting services		
Management and general	665,559	700,295
	<u>6,977,078</u>	<u>6,663,679</u>
Total operating expenses		
Change in unrestricted net assets (Exhibit D)	672,028	(10,588)
Net assets - unrestricted - beginning of year	<u>87,482</u>	<u>98,070</u>
Net assets - unrestricted - end of year (Exhibit A)	<u>\$ 759,510</u>	<u>\$ 87,482</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013					
	No. of Positions	Program Services		Supporting Services	No. of Positions	Program Services		Supporting Services		
		General Education	Special Education	Management and General		General Education	Special Education	Management and General		
Salaries	63	\$ 3,010,598	\$ 540,766	\$ 281,075	\$ 3,832,439	58	\$ 2,727,342	\$ 470,778	\$ 286,892	\$ 3,485,012
Employee benefits and payroll taxes		621,605	111,653	58,034	791,292		553,171	95,485	58,189	706,845
Occupancy		526,863	94,635	49,189	670,687		517,919	89,400	73,267	680,586
Contracted services		220,808	36,596	112,851	370,255		176,109	28,761	147,174	352,044
Supplies and equipment		313,596	51,246	25,581	390,423		295,074	47,302	26,813	369,189
Student meal program		195,457	31,683		227,140		257,267	41,115		298,382
Student travel		22,933	3,717		26,650		15,520	2,480		18,000
Repairs and maintenance		115,374	20,723	10,771	146,868		123,156	21,259	12,955	157,370
Printing and postage		1,160	208	108	1,476		1,554	268	164	1,986
Professional fees		34,016	6,110	112,121	152,247		29,929	5,166	69,696	104,791
Dues and subscription		10,431	1,874	974	13,279		2,497	431	263	3,191
Insurance		30,299	5,442	2,829	38,570		22,620	3,905	2,380	28,905
Telephone		16,040	2,881	1,497	20,418		15,602	2,693	1,641	19,936
In-kind rent and services (Note 5)		136,194	22,077		158,271		259,444	42,700	10,160	312,304
Travel				514	514				434	434
Depreciation and amortization		106,816	19,187	9,973	135,976		95,659	16,512	10,063	122,234
Interest expense		450	81	42	573		1,796	310	189	2,295
Miscellaneous expenses							135	25	15	175
Total expenses (Exhibit B)		\$ 5,362,640	\$ 948,879	\$ 665,559	\$ 6,977,078		\$ 5,094,794	\$ 868,590	\$ 700,295	\$ 6,663,679

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 672,028	\$ (10,588)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	135,976	122,234
Decrease (increase) in assets		
Accounts receivable	225,327	(152,008)
Prepaid expenses and other assets	(7,115)	(39,790)
Increase in liabilities		
Accounts payable and accrued expenses	(139,423)	192,827
Accrued salaries and related liabilities	2,563	125,595
Deferred rent	(250,000)	250,000
Net cash provided by operating activities	<u>639,356</u>	<u>488,270</u>
Cash flows from investing activities		
Fixed asset acquisitions	(125,232)	(332,697)
Increase in escrow deposits	<u>(140)</u>	<u>(204)</u>
Net cash used by investing activities	<u>(125,372)</u>	<u>(332,901)</u>
Cash flows from financing activities		
Principal payments on capital lease	<u>(4,309)</u>	<u>(14,580)</u>
Net increase in cash	509,675	140,789
Cash - beginning of year	<u>497,965</u>	<u>357,176</u>
Cash - end of year	<u>\$ 1,007,640</u>	<u>\$ 497,965</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 573</u>	<u>\$ 2,295</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 1 - NATURE OF ORGANIZATION**

Hebrew Language Academy Charter School (HLA) is an educational corporation that operates as a charter school in the borough of Brooklyn, New York. On January 13, 2009, the Board of Regents and the Board of Trustees of the University of the State of New York, on behalf of the State Education Department, granted HLA a charter valid for a term of 5 years. The School was issued a renewal to the original charter in January 2014 for one and a half years which is renewable upon expiration. HLA was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. In fiscal years 2014 and 2013, HLA operated classes for 472 students in grades K-5 and 389 students in grades K-4, respectively.

Hebrew Language Academy Charter School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. HLA is supported primarily by state and local per-pupil operating revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Escrow deposits - Escrow deposits represent funds held aside for contingency purposes as required by the New York City Department of Education.

Accounts receivable - Accounts receivable are recorded when services are rendered. Interest is not accrued or recorded on outstanding receivables.

Allowance for doubtful accounts - Bad debt expense is charged if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Management has determined that no allowance is necessary as of June 30, 2014 and 2013.

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HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets are recorded at cost. Items with a cost of \$500 or more with an estimated useful life of greater than one year are capitalized. Depreciation and amortization are provided on the straight-line basis over the estimated following useful lives of assets:

Furniture, fixtures and equipment	3 - 5 years
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Accrued salaries and related liabilities - Accrued salaries and related liabilities consist of payroll and merit pay earned by staff during the school year but paid out over the summer months and/or following fiscal year.

Deferred rent - HLA recognizes rent expense using the straight-line method over the lease term, including lease renewal option periods that can be reasonably assured at the inception of the lease. Deferred rent is recorded when there are differences between the fixed payment and the rent expense.

State and local per-pupil revenues - Revenues from the state and local governments in accordance with HLA's charter status is based on the number of students enrolled and are recorded when services are performed in accordance with the charter agreement. These funds are recorded by HLA when services are rendered.

Government grants and contracts - Revenues from government grants and contracts to which HLA is entitled are recognized primarily on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by HLA.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The gifts are reported as temporarily or permanently 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 time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

In-kind contributions - In-kind contributions are recorded at fair value at the date of donation.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

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HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses - The costs of providing the programs and other activities of HLA have been summarized on a functional basis in the statement of activities, which include all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management in accordance with grant provisions and/or other equitable bases.

Fund raising - Fund-raising services are performed by volunteers (primarily the Board of Trustees). No amounts are reflected in the accompanying financial statements for such services as they do not meet the criteria for recognition as contributions.

Uncertainty in income taxes - HLA has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through August 28, 2014, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	<u>2014</u>	<u>2013</u>
Furniture, fixtures and equipment	\$ 757,741	\$ 632,509
Accumulated depreciation and amortization	<u>(432,395)</u>	<u>(296,419)</u>
	<u>\$ 325,346</u>	<u>\$ 336,090</u>

NOTE 4 - CAPITAL LEASE PAYABLE

During 2010, HLA entered into a capital lease agreement with Xerox Corporation for two copiers. The lease expires in January of 2015. The lease has an interest rate of 13.5%. The cost of capital lease assets is \$35,227, with amortization of \$7,046 for the years ended June 30, 2014 and 2013, and accumulated amortization of \$34,055 and \$27,009 as of June 30, 2014 and 2013, respectively. In June of 2013, HLA bought out the lease for one of the copiers for \$7,147 and was required to make a final payment in July.

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HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 4 - CAPITAL LEASE PAYABLE (continued)

Combined required payments of principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ <u>1,440</u>	\$ <u>40</u>	\$ <u>1,480</u>
Total minimum payments	\$ <u>1,440</u>	\$ <u>40</u>	1,480
Less amount representing interest			<u>(40)</u>
Capital lease payable			\$ <u>1,440</u>

NOTE 5 - IN-KIND CONTRIBUTIONS

In-kind contributions were from two not-for-profit organizations, Friends of Hebrew Language Academy Charter Schools and the National Center for Hebrew Language Charter School Excellence and Development, Inc. (HCSC). Friends of Hebrew Language Academy Charter Schools donated space amounting to \$58,500 in 2013. In addition, other services are paid for directly by HCSC amounted to \$158,271 and \$253,804 in 2014 and 2013, respectively. Total in-kind contributions was \$158,271 and \$312,304 in 2014 and 2013, respectively.

NOTE 6 - PENSION PLAN

HLA has a defined contribution retirement plan which covers substantially all full-time employees. HLA contributed a dollar-to-dollar match up to 3% of the employees' compensation. Pension expense under this plan was \$59,064 and \$34,129 for the employer match and \$1,988 and \$1,790 for administrative fees for 2014 and 2013, respectively.

NOTE 7 - CONTINGENCIES AND CONCENTRATIONS

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost 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.

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HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 7 - CONTINGENCIES AND CONCENTRATIONS (continued)**

Financial instruments that potentially subject HLA to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

A significant portion of HLA's operating revenue is paid by the New York City Department of Education.

NOTE 8 - LEASE COMMITMENT/EXPENSE RECOGNITION

HLA had a lease agreement for space which expired on June 30, 2014. Rent was recorded on the straight-line basis over the life of the lease. For the years ended June 30, 2014 and 2013, rent expense amounted to \$600,000. HLA entered into a new lease, as of July 1, 2014, for space which will expire on July 15, 2015. Future minimum payments are as follows:

2015	\$ 954,200
2016	<u>25,350</u>
	<u>\$ 979,550</u>



**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**

Independent Auditor's Report

**Board of Trustees
Hebrew Language Academy Charter School**

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 Hebrew Language Academy Charter School, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, 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 August 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hebrew Language Academy Charter School'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 Hebrew Language Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Hebrew Language Academy Charter School'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. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Hebrew Language Academy Charter School'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 no instances of noncompliance or other matters that are 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.

Loeb + Troper LLP

August 28, 2014