FINANCIAL STATEMENTS AND AUDITOR'S REPORTS

JUNE 30, 2016 AND 2015

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LOEB & TROPER LLP

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, 2016 and 2015, 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, 2016 and 2015, 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 October 13, 2016 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 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.

Lack + Feogurus

October 13, 2016



3. EXHIBIT A

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

| | | 2016 | 2015 |
|--------------------------------------------|----|-----------|-----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash | \$ | 603,665 | \$ 449,546 |
| Grants and contracts receivable | | 205,522 | 48,179 |
| Prepaid expenses and other assets (Note 7) | | 32,140 | 542,780 |
| Total current assets | | 841,327 | 1,040,505 |
| Noncurrent assets | | | |
| Cash - reserves (Note 2) | | 70,737 | 70,583 |
| Security deposit (Note 7) | | 203,998 | 199,498 |
| Fixed assets - net (Note 3) | | 587,787 | 289,458 |
| Total assets | \$ | 1,703,849 | \$ 1,600,044 |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities | | | |
| Accounts payable and accrued expenses | \$ | 293,403 | \$ 250,691 |
| Accrued salaries and related liabilities | | 540,376 | 512,034 |
| Advance deposit | | 38,273 | |
| Total current liabilities | | 872,052 | 762,725 |
| Net assets - unrestricted (Exhibit B) | _ | 831,797 | 837,319 |
| Total liabilities and net assets | \$ | 1,703,849 | \$ 1,600,044 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

4. EXHIBIT B

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

| | _ | 2016 | - | 2015 |
|-----------------------------------------------------|-----|-----------|-----|-----------|
| Operating revenues | | | | |
| State and local per-pupil operating revenues | \$ | 9,053,681 | \$ | 7,179,148 |
| Government grants and contracts | | 540,995 | | 376,449 |
| Foundations and corporate contributions | | | | 20,261 |
| In-kind contributions (Note 4) | | 361,848 | | 99,641 |
| Other revenues | - | 11,241 | - | 14,852 |
| Total operating revenues | _ | 9,967,765 | _ | 7,690,351 |
| Operating expenses (Exhibit C) | | | | |
| Program services | | | | |
| General education | | 7,505,928 | | 5,430,805 |
| Special education | - | 1,764,346 | - | 1,570,219 |
| Total program services | | 9,270,274 | | 7,001,024 |
| Supporting services | | | | |
| Management and general | _ | 703,013 | - | 611,518 |
| Total operating expenses | _ | 9,973,287 | - | 7,612,542 |
| Change in unrestricted net assets (Exhibit D) | | (5,522) | | 77,809 |
| Net assets - unrestricted - beginning of year | - | 837,319 | - | 759,510 |
| Net assets - unrestricted - end of year (Exhibit A) | \$_ | 831,797 | \$_ | 837,319 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

| | | 2016 | | | | | 2015 | | | |
|-------------------------------------|---------------------|----------------------|----------------------|---------------------------|-------------|---------------------|----------------------|----------------------|---------------------------|--------------|
| | | Prog Serv | | Supporting Services | | | | ogram ervices | Supporting Services | |
| | No. of Positions | General Education | Special Education | Management and General | Total | No. of Positions | General Education | Special Education | Management and General | Total |
| Administrative staff personnel | 5 5 | \$ 162,958 | \$ 25,071 | \$ 267,413 | \$ 455,442 | 5 \$ | 161,465 | \$ 25,307 | \$ 228,607 | \$ 415,379 |
| Instructional personnel | 59 | 3,068,239 | 755,508 | | 3,823,747 | 57 | 2,475,243 | 821,626 | 14,805 | 3,311,674 |
| Non-instructional personnel | 4 | 109,327 | 21,880 | | 131,207 | 5 | 127,570 | 21,597 | | 149,167 |
| Total salaries and staff | 68 | 3,340,524 | 802,459 | 267,413 | 4,410,396 | 67 | 2,764,278 | 868,530 | 243,412 | 3,876,220 |
| Payroll taxes and employee benefits | | 732,989 | 176,517 | 59,553 | 969,059 | | 636,810 | 200,084 | 56,075 | 892,969 |
| Occupancy | | 1,446,396 | 348,318 | 117,516 | 1,912,230 | | 721,622 | 226,732 | 63,544 | 1,011,898 |
| Contracted services | | 564,888 | 115,503 | 4,897 | 685,288 | | 432,804 | 79,127 | 114,633 | 626,564 |
| Supplies and equipment | | 326,730 | 66,375 | 17,175 | 410,280 | | 308,148 | 55,439 | 20,416 | 384,003 |
| Student meal program | | 130,454 | 26,108 | | 156,562 | | 157,659 | 26,691 | | 184,350 |
| Student field trips | | 20,616 | 4,126 | | 24,742 | | 18,592 | 3,147 | | 21,739 |
| Repairs and maintenance | | 179,488 | 43,224 | 14,583 | 237,295 | | 111,164 | 34,928 | 9,789 | 155,881 |
| Printing and postage | | 2,069 | 498 | 168 | 2,735 | | 1,616 | 508 | 142 | 2,266 |
| Professional fees (Note 8) | | 211,399 | 50,909 | 181,445 | 443,753 | | 38,095 | 11,969 | 89,384 | 139,448 |
| Dues and subscription | | 14,545 | 3,503 | 1,182 | 19,230 | | 10,094 | 3,172 | 889 | 14,155 |
| Insurance | | 39,825 | 9,590 | 3,236 | 52,651 | | 31,147 | 9,786 | 2,743 | 43,676 |
| Telephone | | 27,423 | 6,604 | 2,228 | 36,255 | | 13,551 | 4,256 | 1,193 | 19,000 |
| In-kind rent and services (Note 4) | | 273,699 | 65,912 | 22,237 | 361,848 | | 85,214 | 14,427 | | 99,641 |
| Staff travel | | 59,855 | 12,183 | 409 | 72,447 | | | | 451 | 451 |
| Depreciation and amortization | | 135,028 | 32,517 | 10,971 | 178,516 | | 100,011 | 31,423 | 8,807 | 140,241 |
| Interest expense | | | | | | | | | 40 | 40 |
| Total expenses (Exhibit B) | S | \$ 7,505,928 | \$ 1,764,346 | \$ 703,013 | \$9,973,287 | \$ | 5,430,805 | \$ 1,570,219 | \$ 611,518 | \$ 7,612,542 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

5. EXHIBIT C

6. EXHIBIT D

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

| | _ | 2016 | _ | 2015 |
|--------------------------------------------------------------------------------------------|-----|-----------|----|-----------|
| Cash flows from operating activities | | | | |
| Change in net assets (Exhibit B) | \$ | (5,522) | \$ | 77,809 |
| Adjustments to reconcile change in net assets to net | | | | |
| cash provided (used) by operating activities | | | | |
| Depreciation and amortization | | 178,516 | | 140,241 |
| Decrease (increase) in assets | | | | |
| Security deposit | | (4,500) | | (199,498) |
| Grants and contracts receivable | | (157,343) | | 988 |
| Prepaid expenses and other assets | | 510,640 | | (458,924) |
| Increase (decrease) in liabilities | | | | |
| Accounts payable and accrued expenses | | 42,712 | | 14,306 |
| Accrued salaries and related liabilities | | 28,342 | | (27,082) |
| Advance deposit | _ | 38,273 | | |
| Net cash provided (used) by operating activities | | 631,118 | | (452,160) |
| Cash flows from investing activities | | | | |
| Fixed asset acquisitions | | (476,845) | | (104,353) |
| Increase in cash reserves | _ | (154) | | (141) |
| Net cash used by investing activities | | (476,999) | | (104,494) |
| Cash flows from financing activities | | | | |
| Principal payments on capital lease | _ | | | (1,440) |
| Net change in cash | | 154,119 | | (558,094) |
| Cash - beginning of year | | 449,546 | | 1,007,640 |
| Cash - end of year | \$_ | 603,665 | \$ | 449,546 |
| Supplemental disclosure of cash flow information Cash paid during the year for interest | \$_ | | \$ | 40 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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. In March 2015 the charter was renewed and will expire on June 30, 2019. 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 2016 and 2015, HLA operated classes for 565 students in grades K-6 and 467 students in grades K-5, 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 perpupil 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.

Reclassifications - 2015 amounts from prepaid expenses and other assets have been reclassed into security deposit to conform to the 2016 presentation.

Cash - reserves - Deposits represent funds held aside for contingency purposes as required by the New York City Department of Education.

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, 2016 and 2015.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid expenses and other assets - Payments made to vendors that cover future periods are recorded as prepaid expenses and other current assets.

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 - 7 years |
|-----------------------------------|-------------|
| Leasehold improvements | 4 years |

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.

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 contract revenues and receivables - 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. Receivables are recorded when revenue is earned.

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.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, 2013 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 13, 2016, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

| | 2016 | 2015 | | |
|-------------------------------------------------------------|------------------------|----------------------|--|--|
| Furniture, fixtures and equipment Leasehold improvements | \$ 907,127 301,197 | \$ 862,094 | | |
| Accumulated depreciation and amortization | 1,208,324 (620,537) | 862,094 (572,636) | | |
| | \$ <u>587,787</u> | \$ <u>289,458</u> | | |

NOTE 4 - IN-KIND CONTRIBUTIONS

In-kind contributions were from two not-for-profit organizations, Friends of Hebrew Language Academy Charter Schools, Inc., and Hebrew Public. Friends of Hebrew Language Academy Charter School's contribution consisted of occupancy costs of \$361,848 in 2016. Services paid directly by Hebrew Public amounted to \$99,641 in 2015.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 5 - 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 \$64,787 and \$59,339 for the employer match and \$2,968 and \$2,572 for administrative fees for 2016 and 2015, respectively.

NOTE 6 - 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.

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 7 - LEASE COMMITMENT/EXPENSE RECOGNITION

HLA entered into a lease, as of July 1, 2014, for space which expired on July 15, 2015. For the year ended June 30, 2015, rent expense amounted to \$954,200. HLA entered into a one-year lease for new space for the school as of July 1, 2015 which expired June 30, 2016. HLA was required to provide a security deposit of \$199,498 and prepaid rent of \$395,000 as of June 30, 2015. In 2016, the security deposit was increased to \$203,998. For the year ended June 30, 2016, rent expense amounted to \$1,725,650. HLA entered into a new one-year lease as of July 1, 2016 which will expire on June 30, 2017. Future minimum payments are as follows:

2017 \$<u>1,950,000</u>

NOTE 8 - CHARTER MANAGEMENT ORGANIZATION

On July 1, 2015, HLA entered into an educational services agreement with a charter management organization ("CMO") to provide expertise necessary to effectively provide essential programming and services to the charter school. The agreement continues through June 30, 2019. The expense for 2016 amounted to \$223,428.

LOEB & TROPER LLP

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, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2016.

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.

Lack + Leopenus

October 13, 2016



MANAGEMENT LETTER

JUNE 30, 2016



LOEB & TROPER LLP

Board of Trustees Hebrew Language Academy Charter School

In planning and performing our audit of the financial statements of Hebrew Language Academy Charter School ("HLA") as of and for the year ended June 30, 2016 in accordance with auditing standards generally accepted in the United States of America, we considered HLA's internal control over financial reporting (internal control) as a basis for designing 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 HLA's internal control. Accordingly, we do not express an opinion on the effectiveness of HLA'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.

This communication is intended solely for the information and use of the Board of Trustees, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Lock + Topen us

October 13, 2016