

**HEBREW LANGUAGE ACADEMY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2013 AND 2012

**HEBREW LANGUAGE ACADEMY
CHARTER SCHOOL**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Exhibit	
A - Statement of Financial Position	3
B - Statement of Activities	4
C - Statement of Functional Expenses	5
D - Statement of Cash Flows	6
Notes to Financial Statements	7-11
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	12-13



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, 2013 and 2012, 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, 2013 and 2012, 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 September 12, 2013 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

September 12, 2013

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 497,965	\$ 357,176
Escrow deposits (Note 2)	70,302	70,098
Accounts receivable	274,494	122,486
Prepaid expenses and other assets	76,741	36,951
Fixed assets - net (Note 3)	<u>336,090</u>	<u>125,627</u>
Total assets	<u>\$ 1,255,592</u>	<u>\$ 712,338</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 375,808	\$ 182,981
Accrued salaries and related liabilities	536,553	410,958
Deferred rent	250,000	
Capital lease payable (Note 4)	<u>5,749</u>	<u>20,329</u>
Total liabilities	1,168,110	614,268
Net assets - unrestricted (Exhibit B)	<u>87,482</u>	<u>98,070</u>
Total liabilities and net assets	<u>\$ 1,255,592</u>	<u>\$ 712,338</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
State and local per-pupil operating revenues	\$ 5,705,863	\$ 4,304,538
Government grants and contracts	609,927	349,945
Foundations and corporate contributions	6,367	9,670
In-kind contributions (Note 5)	312,304	755,384
Other revenues	<u>18,630</u>	<u>21,591</u>
Total operating revenues	<u>6,653,091</u>	<u>5,441,128</u>
Expenses (Exhibit C)		
Program services		
General education	5,094,794	3,657,819
Special education	<u>868,590</u>	<u>1,124,296</u>
Total program services	5,963,384	4,782,115
Supporting services		
Management and general	<u>700,295</u>	<u>605,112</u>
Total operating expenses	<u>6,663,679</u>	<u>5,387,227</u>
Change in unrestricted net assets (Exhibit D)	(10,588)	53,901
Net assets - unrestricted - beginning of year	<u>98,070</u>	<u>44,169</u>
Net assets - unrestricted - end of year (Exhibit A)	<u>\$ 87,482</u>	<u>\$ 98,070</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, 2013 AND 2012

	2013					2012				
	No. of Positions	Program Services			Supporting Services	No. of Positions	Program Services			Supporting Services
		General Education	Special Education	Management and General	Total		General Education	Special Education	Management and General	Total
Salaries	58	\$ 2,727,342	\$ 470,778	\$ 286,892	\$ 3,485,012	46	\$ 1,895,934	\$ 646,829	\$ 287,124	\$ 2,829,887
Employee benefits and payroll taxes		553,171	95,485	58,189	706,845		426,311	146,345	63,628	636,284
Occupancy		517,919	89,400	73,267	680,586		25,876	8,883	3,862	38,621
Contracted services		176,109	28,761	147,174	352,044		200,742	29,996	11,666	242,404
Supplies and equipment		295,074	47,302	26,813	369,189		200,494	29,959	31,180	261,633
Student meal program		257,267	41,115		298,382		218,843	32,701		251,544
Student travel		15,520	2,480		18,000		17,983	2,687		20,670
Repairs and maintenance		123,156	21,259	12,955	157,370		79,058	27,139	11,800	117,997
Printing and postage		1,554	268	164	1,986		1,129	387	169	1,685
Professional fees		29,929	5,166	69,696	104,791				109,803	109,803
Dues and subscription		2,497	431	263	3,191		3,691	552		4,243
Insurance		22,620	3,905	2,380	28,905		16,062	5,514	2,397	23,973
Telephone		15,602	2,693	1,641	19,936		6,778	2,326	1,012	10,116
In-kind rent and services (Note 5)		259,444	42,700	10,160	312,304		506,107	173,739	75,538	755,384
Travel				434	434				420	420
Depreciation and amortization		95,659	16,512	10,063	122,234		41,285	14,172	6,162	61,619
Interest expense		1,796	310	189	2,295		2,167	737	324	3,228
Bad debts							15,179	2,268		17,447
Miscellaneous expenses		135	25	15	175		180	62	27	269
Total expenses (Exhibit B)		\$ 5,094,794	\$ 868,590	\$ 700,295	\$ 6,663,679		\$ 3,657,819	\$ 1,124,296	\$ 605,112	\$ 5,387,227

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (10,588)	\$ 53,901
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	122,234	61,619
Decrease (increase) in assets		
Accounts receivable	(152,008)	120,329
Prepaid expenses and other assets	(39,790)	(28,446)
Increase in liabilities		
Accounts payable and accrued expenses	192,827	28,515
Accrued salaries and related liabilities	125,595	82,517
Deferred rent	250,000	
Net cash provided by operating activities	<u>488,270</u>	<u>318,435</u>
Cash flows from investing activities		
Fixed asset acquisitions	(332,697)	
Increase in escrow deposits	<u>(204)</u>	<u>(40,087)</u>
Net cash used by investing activities	<u>(332,901)</u>	<u>(40,087)</u>
Cash flows from financing activities		
Principal payments on capital lease	<u>(14,580)</u>	<u>(6,492)</u>
Net increase in cash	140,789	271,856
Cash - beginning of year	<u>357,176</u>	<u>85,320</u>
Cash - end of year	<u>\$ 497,965</u>	<u>\$ 357,176</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 2,295</u>	<u>\$ 3,228</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, 2013 AND 2012****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 and 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 2013 and 2012, HLA operated classes for 389 students in grades K-4 and 310 students in grades K-3, 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, 2013 and 2012.

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HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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, 2013 AND 2012

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, 2010 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through September 12, 2013, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	<u>2013</u>	<u>2012</u>
Furniture, fixtures and equipment	\$ 632,509	\$ 299,812
Accumulated depreciation and amortization	<u>(296,419)</u>	<u>(174,185)</u>
	<u>\$ 336,090</u>	<u>\$ 125,627</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, 2012 and 2011, and accumulated amortization of \$27,009 and \$19,963 as of June 30, 2013 and 2012, 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, 2013 AND 2012

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>
2014	\$ 4,309	\$ 573	\$ 4,882
2015	<u>1,440</u>	<u>40</u>	<u>1,480</u>
Total minimum payments	<u>\$ 5,749</u>	<u>\$ 613</u>	6,362
Less amount representing interest			<u>(613)</u>
Capital lease payable			<u>\$ 5,749</u>

NOTE 5 - IN-KIND CONTRIBUTIONS

In-kind contributions from a not-for-profit organization, Friends of Hebrew Language Academy Charter Schools, Inc., consisted of donated space amounting to a total of \$58,500 and \$658,656 for 2013 and 2012, respectively. In addition, other services are paid for directly by Friends of Hebrew Language Academy Charter Schools, Inc. Total in-kind contributions amounted to \$312,304 and \$755,384 for 2013 and 2012, 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 \$34,129 and \$39,848 for the employer match and \$1,790 and \$1,674 for administrative fees for 2013 and 2012, respectively.

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HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012****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.

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 has a lease agreement for space with an expiration date of June 30, 2014. Rent was recorded on the straight-line basis over the life of the lease. For the year ended June 30, 2013, rent expense amounted to \$600,000. Future minimum payments are as follows:

2014	\$ <u>850,000</u>
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In accordance with requirements to reflect lease expense on a straight-line basis, \$250,000 was accrued as an expense in 2013, which will be paid in 2014. If not for this accrual, the change in net assets for the year ended June 30, 2013 would be \$239,412.



**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
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, 2013, 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 September 12, 2013.

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

September 12, 2013