**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**

**BROOKLYN, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**REPORT REQUIRED BY**
**GOVERNMENT AUDITING STANDARDS**

**AND**

**INDEPENDENT AUDITOR'S REPORTS**

**JUNE 30, 2019**
**(With Comparative Totals For 2018)**

MMB

MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MMB

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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, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.



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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, 2019, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Hebrew Language Academy Charter School's June 30, 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Report Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019 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, 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 the control over financial reporting or 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.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 29, 2019

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019
(With Comparative Totals For 2018)

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 2,185,195 | $ 1,542,109 |
| Grants and other receivables | 402,393 | 477,031 |
| Due from related parties | 29,371 | 21,907 |
| Prepaid expenses | 28,793 | 294,410 |
| TOTAL CURRENT ASSETS | 2,645,752 | 2,335,457 |
| **OTHER ASSETS** | | |
| Property and equipment, net | 412,477 | 538,350 |
| Cash in escrow | 71,092 | 71,112 |
| Deposits | 269,520 | 212,859 |
| | 753,089 | 822,321 |
| TOTAL ASSETS | $ 3,398,841 | $ 3,157,778 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 228,633 | $ 268,459 |
| Accrued payroll and benefits | 448,659 | 405,655 |
| Due to Charter Management Organization | 339,561 | 204,384 |
| Due to related parties | 134,039 | - |
| Deferred revenue | 21,588 | 40,312 |
| TOTAL CURRENT LIABILITIES | 1,172,480 | 918,810 |
| **DEFERRED LEASE LIABILITY** | 461,400 | 520,800 |
| TOTAL LIABILITIES | 1,633,880 | 1,439,610 |
| **NET ASSETS** | | |
| Without donor restrictions | 1,764,961 | 1,718,168 |
| TOTAL LIABILITIES AND NET ASSETS | $ 3,398,841 | $ 3,157,778 |

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2019
(With Comparative Totals For 2018)

| | Year ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Operating revenue and support: | | |
| State and local per pupil operating revenue | $ 13,252,997 | $ 12,882,198 |
| Governmental grants and contracts | 735,034 | 691,525 |
| Other revenue | 914 | 20,910 |
| TOTAL REVENUE AND SUPPORT | 13,988,945 | 13,594,633 |
| Expenses: | | |
| Program services: | | |
| Regular education | 10,212,202 | 9,149,908 |
| Special education | 2,716,700 | 2,095,440 |
| TOTAL PROGRAM SERVICES | 12,928,902 | 11,245,348 |
| Management and general | 1,013,250 | 1,015,787 |
| TOTAL OPERATING EXPENSES | 13,942,152 | 12,261,135 |
| CHANGE IN NET ASSETS | 46,793 | 1,333,498 |
| Net assets at beginning of year | 1,718,168 | 384,670 |
| NET ASSETS AT END OF YEAR | $ 1,764,961 | $ 1,718,168 |

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019
(With Comparative Totals For 2018)

| | | Year ended June 30, | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2019 | | | | | 2018 |
| | | Program Services | | | Supporting Services | | |
| | No. of positions June 30, 2019 | Regular Education | Special Education | Sub-total | Management and general | Total | Total |
| Personnel services costs: | | | | | | | |
| Administrative staff personnel | 9 | $ 260,548 | $ 35,805 | $ 296,353 | $ 414,393 | $ 710,746 | $ 643,996 |
| Instructional personnel | 70 | 4,172,747 | 1,174,619 | 5,347,366 | - | 5,347,366 | 4,357,596 |
| Non-instructional personnel | 1 | 3,167 | 667 | 3,834 | - | 3,834 | - |
| TOTAL PERSONNEL SERVICES COSTS | 80 | 4,436,462 | 1,211,091 | 5,647,553 | 414,393 | 6,061,946 | 5,001,592 |
| Fringe benefits & payroll taxes | | 1,142,855 | 311,984 | 1,454,839 | 106,750 | 1,561,589 | 1,210,715 |
| Retirement | | 41,479 | 11,323 | 52,802 | 3,875 | 56,677 | 59,079 |
| Management company fees | | 676,246 | 184,606 | 860,852 | 63,166 | 924,018 | 597,751 |
| Legal services | | - | - | - | 41,524 | 41,524 | 31,849 |
| Accounting / audit services | | - | - | - | 113,034 | 113,034 | 82,890 |
| Other purchased / professional / consulting services | | 288,180 | 71,347 | 359,527 | 17,032 | 376,559 | 626,487 |
| Occupancy | | 1,851,860 | 505,531 | 2,357,391 | 172,975 | 2,530,366 | 2,530,266 |
| Repair and maintenance | | 218,693 | 59,700 | 278,393 | 20,427 | 298,820 | 270,827 |
| Insurance | | 53,120 | 14,501 | 67,621 | 4,962 | 72,583 | 75,329 |
| Utilities | | 162,046 | 44,236 | 206,282 | 15,136 | 221,418 | 213,206 |
| Supplies / materials | | 295,722 | 62,285 | 358,007 | - | 358,007 | 320,715 |
| Staff development | | 276,260 | 60,408 | 336,668 | 3,328 | 339,996 | 280,398 |
| Marketing / recruitment | | 48,304 | 10,512 | 58,816 | 507 | 59,323 | 31,939 |
| Technology | | 4,533 | 955 | 5,488 | - | 5,488 | 39,612 |
| Food service | | 229,962 | 48,435 | 278,397 | - | 278,397 | 245,152 |
| Student service | | 208,691 | 43,954 | 252,645 | - | 252,645 | 267,686 |
| Office expense | | 61,398 | 16,761 | 78,159 | 15,929 | 94,088 | 97,659 |
| Depreciation and amortization | | 213,967 | 58,410 | 272,377 | 19,986 | 292,363 | 271,568 |
| Miscellaneous | | 2,424 | 661 | 3,085 | 226 | 3,311 | 6,415 |
| | | $ 10,212,202 | $ 2,716,700 | $ 12,928,902 | $ 1,013,250 | $ 13,942,152 | $ 12,261,135 |

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019
(With Comparative Totals For 2018)

| | Year ended June 30, 2019 | 2018 |
|---|---|---|
| CASH FLOWS - OPERATING ACTIVITIES | | |
| Change in net assets | $ 46,793 | $ 1,333,498 |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: | | |
| Depreciation and amortization | 292,363 | 271,568 |
| Changes in certain assets and liabilities affecting operations: | | |
| Grants and other receivables | 74,638 | (158,065) |
| Due from related parties | (7,464) | (21,907) |
| Prepaid expenses | 265,617 | (5,216) |
| Deposits | (56,661) | - |
| Accounts payable | (39,826) | 57,510 |
| Accrued payroll and benefits | 43,004 | 39,865 |
| Due to Charter Management Organization | 135,177 | 84,470 |
| Due to related parties | 134,039 | - |
| Deferred revenue | (18,724) | 39,260 |
| Deferred lease liability | (59,400) | (59,400) |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 809,556 | 1,581,583 |
| CASH FLOWS - INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (166,490) | (216,293) |
| Decrease (increase) in cash in escrow | 20 | (195) |
| NET CASH USED FOR INVESTING ACTIVITIES | (166,470) | (216,488) |
| NET INCREASE IN CASH | 643,086 | 1,365,095 |
| Cash at beginning of year | 1,542,109 | 177,014 |
| CASH AT END OF YEAR | $ 2,185,195 | $ 1,542,109 |

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

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

### The Charter School

Hebrew Language Academy Charter School (the "Charter School"), is an education corporation operating as a charter school in the Borough of Brooklyn, New York. The Charter school opened in 2009 with a charter for a term of 5 years, granted by 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. In March 2015 the charter was renewed through June 30, 2019. In May 2019, the charter was renewed for a second time and will expire on June 30, 2022.

The Charter School provides students with the academic and personal foundation necessary to successfully pursue advanced studies and achieve continued personal growth as ethical and informed global citizens. In order to accomplish this, the Charter School offers an academically rigorous curriculum which includes daily instruction in the Hebrew language.

### Basis of accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

### Classification of net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Charter School, the accounts of the Charter School are maintained in accordance with the principles of accounting for not-for-profit organizations. This is the procedure by which resources are classified for reporting purposes into net asset groups, established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by net asset group.

The assets, liabilities, activities, and net assets are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions*

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees has discretionary control to use these in carrying on operations in accordance with the guidelines established by the Charter School.

*Net Assets With Donor Restrictions*

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter School had no net assets with donor restrictions at June 30, 2019 or 2018.

## 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 or the requirements of the grant are met.

Contributions are recognized as revenue in the year the pledge is received and documented.

### Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. All donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

### Cash

Cash balances are maintained at a financial institution located in New York and are insured by the FDIC up to $250,000 at that 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.

### Cash in escrow

The Charter School maintains cash in an escrow account, pursuant to its Charter Agreement, to pay off expenses in the event of dissolution of the Charter School. The amount in escrow was approximately $71,000 at June 30, 2019 and 2018.

### Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2019 or 2018.

### Due from related parties

The Charter School has an amount due from other charter schools that are in the same network. The charter schools share other services in which the related parties reimburse the Charter School for these expenses. The amounts due were approximately $29,400 and $21,900 at June 30, 2019 and 2018, respectively.

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

### Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives which range from three to seven years.

### Deferred lease liability

The Charter School leases its facility. The lease contains significant pre-determined fixed escalations of the base rent. In accordance with GAAP, the Charter School recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts paid under the lease as a deferred lease liability. The amount of additional rent paid in excess of rent expense under the lease was $59,400 for the years ended June 30, 2019 and 2018.

### Due to related parties

The Charter School receives meal subsidies from the federal and state governments on behalf of all the charter schools in the network. The amount due to the other charter schools was approximately $134,000 at June 30, 2019. There were no amounts due to related parties at June 30, 2018.

### 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.

### 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 files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2016 through June 30, 2019 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

### Contributed services

The Charter school receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. In addition, the Charter School received donated transportation services, office equipment, computers, classroom equipment, and speech, occupational and physical therapy services that were provided for the students from the local district. The Charter School was unable to determine a value for these services.

### In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions received during the years ended June 30, 2019 and 2018.

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

### Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated $59,300 and $31,900 for the years ended June 30, 2019 and 2018, respectively.

### 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.

### Comparatives for year ended June 30, 2018

The financial statements include certain prior year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

### Change in accounting principle

During August 2016 FASB issued Accounting Standards Update No. 2016-14 "*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*". The main provisions of ASU 2016-14 require a Not-For-Profit (NFP) to:

1) Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than three classes. That is, an NFP will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions,* as well as the currently required amount for total net assets.

2) Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the required three classes as in prior years. An NFP would continue to report the currently required amount of the change in total net assets for the period.

3) Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

4) Provide enhanced disclosures about:

    a) Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.

    b) Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date.

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

c) Quantitative information, and additional qualitative information, that communicates the availability of an NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by Board of Trustee decisions.

d) Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location.

e) Method(s) used to allocate costs among program and support functions.

ASU 2016-14 is effective for financial statements beginning after December 15, 2017 and was applied retrospectively except for disclosures regarding liquidity and availability of resources, which are presented only for the current year. There was no effect on total assets or changes in net assets. The Charter School has adopted the amendments effective July 1, 2018.

New accounting pronouncements

Revenue from contracts with customers
In May 2014, the Financial Accounting Standards Board ("FASB") issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School's financial position or results of operations.

Leases
In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the guidance in this new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. There has been an exposure draft proposed that would delay the ASU from the initial timetable and, if passed, will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School's financial position or results of operations.

Reclassifications
Certain prior year balances were reclassified to conform with the current year presentation.

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

### Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 29, 2019, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

## NOTE B: LIQUIDITY AND AVAILABILITY

The Charter School regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Charter School's main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charter School considers all expenditures related to its ongoing activities of teaching, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Charter School's cash and shows positive cash generated by operations for fiscal year 2019.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

| | Amount |
|---|---|
| Cash | $ 2,185,195 |
| Grants and other receivables | 402,393 |
| Due from related parties | 29,371 |
| Total financial assets available to management for general expenditures within one year | $ 2,616,959 |

## NOTE C: SCHOOL FACILITY

Effective September 28, 2016, the Charter School entered into an eight year lease with Friends of Hebrew Language Academy Charter Schools, Inc. for its facilities through June 30, 2024. The Charter School's base rent for the year ended June 30, 2019 was $215,800 per month. The lease will have escalating payments throughout the term. Rent expense totaled approximately $2,530,000, for the years ended June 30, 2019 and 2018. The Charter School was required to provide a security deposit, which amounted to $212,859 at June 30, 2019 and 2018.

## NOTE C: SCHOOL FACILITY, Cont'd

The future minimum payments on this agreement are as follows:

| Year ending June 30, | Amount |
|---|---|
| 2020 | 2,556,000 |
| 2021 | 2,600,400 |
| 2022 | 2,658,000 |
| 2023 | 2,616,000 |
| 2024 | 2,682,000 |
| | $ 13,112,400 |

## NOTE D: OPERATING LEASE

The Charter School leases office equipment under three non-cancelable lease agreements expiring at various dates through September 2023. Lease expense was approximately $72,800 and $44,400, for the years ended June 30, 2019 and 2018, respectively. The future minimum payments on these agreements are as follows:

| Year ending June 30, | Amount |
|---|---|
| 2020 | $ 23,160 |
| 2021 | 23,160 |
| 2022 | 22,420 |
| 2023 | 10,200 |
| 2024 | 1,700 |
| | $ 80,640 |

## NOTE E: RETIREMENT PLAN

The Charter School has a defined contribution retirement plan which covers substantially all full-time employees. The Charter School contributed a dollar-to-dollar match up to 3% of the employees' compensation. During the years ended June 30, 2019 and 2018, the Charter School contributed $56,677 and $59,079, respectively, for the employer match. There were no administrative fees charged for the years ended June 30, 2019 and 2018.

## 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, 2019 and 2018, approximately 54% and 93%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For both years ended June 30, 2019 and 2018, 95% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

## NOTE H: FIXED ASSETS

Property and equipment consist of the following:

| | June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Furniture, fixtures and equipment | $ 1,515,219 | $ 1,348,729 |
| Leasehold improvements | 315,697 | 315,697 |
| | 1,830,916 | 1,664,426 |
| Less accumulated depreciation and amortization | 1,418,439 | 1,126,076 |
| | $ 412,477 | $ 538,350 |

## NOTE I: NET ASSETS

Net assets without donor restrictions are as follows:

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Undesignated | $ 1,352,484 | $ 1,179,818 |
| Invested in property and equipment | 412,477 | 538,350 |
| | $ 1,764,961 | $ 1,718,168 |

## NOTE J: CHARTER MANAGEMENT ORGANIZATION

On July 1, 2015, the Charter School entered into an educational services agreement with a charter management organization, National Center for Hebrew Language Charter School Excellence and Development, Inc. ("Hebrew Public") to provide expertise necessary to effectively provide essential programming and services to the Charter School. The agreement continued through June 30, 2019. In April 2018, the agreement was amended to increase the percentage for the 2018-2019 school year. In May 2019, the agreement was renewed through June 30, 2022. The percent of gross revenue used for the calculation is as follows:

| School Year | Percentage of Gross Revenue per Agreement |
|---|---|
| 2018-2019 | 7.5% |
| 2019-2020 | 10% |
| 2020-2021 | 10% |
| 2021-2022 | 10% |

For the years ended June 30, 2019 and 2018, the expense amounted to approximately $924,000 and $597,800, respectively. Amounts due to Hebrew Public relating to the management fee were $230,920 and $145,889 at June 30, 2019 and 2018.

An additional $108,641 is due to Hebrew Public for various other expenses for which the Charter School will reimburse Hebrew Public.

## NOTE K: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort.

**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**

**REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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
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, 2019 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2019.

**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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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## 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.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 29, 2019