

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2017



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 9, 2017

The Finance Committee
Hebrew Language Academy Charter School

We have audited the financial statements of Hebrew Language Academy Charter School as of and for the year ended June 30, 2017, and have issued our report thereon dated October 9, 2017. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated March 28, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Hebrew Language Academy Charter School solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding control deficiencies and other matters noted during our audit in a separate letter to you dated October 9, 2017.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Hebrew Language Academy Charter School is included in Note A to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the allocations of operating expenses to program expenses and management and general expenses and the collectability of grants receivable. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Hebrew Language Academy Charter School's financial statements relate to revenue and support recognition and lease commitments, which is referred to in the notes of the financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material either individually or in the aggregate, to the financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Hebrew Language Academy Charter School's financial statements or the auditor's report. We are pleased to report no such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Hebrew Language Academy Charter School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Hebrew Language Academy Charter School's auditors.

* * * * *

Should you desire further information concerning these matters, Michelle Cain or Kate Welc will be happy to meet with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees, Finance Committee and management of Hebrew Language Academy Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017

(With Comparative Totals For 2016)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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, 2017, 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.

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, 2017, 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

The financial statements of Hebrew Language Academy Charter School, Inc. for the year ended June 30, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on October 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 9, 2017 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, Bar & Co. LLP

Rochester, New York
October 9, 2017

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative Totals For 2016)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 174,813	\$ 603,665
Cash in escrow	70,917	70,737
Grants and other receivables	321,167	205,522
Prepaid expenses	<u>289,194</u>	<u>32,140</u>
TOTAL CURRENT ASSETS	856,091	912,064
 <u>OTHER ASSETS</u>		
Property and equipment, net	593,625	587,787
Deposits	<u>212,859</u>	<u>203,998</u>
	<u>806,484</u>	<u>791,785</u>
TOTAL ASSETS	<u>\$ 1,662,575</u>	<u>\$ 1,703,849</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 130,156	\$ 293,403
Accrued payroll and benefits	446,583	540,376
Due to Charter Management Organization	119,914	-
Deferred revenue	<u>1,052</u>	<u>38,273</u>
TOTAL CURRENT LIABILITIES	697,705	872,052
 <u>DEFERRED LEASE LIABILITY</u>	580,200	-
 <u>NET ASSETS</u>		
Unrestricted	<u>384,670</u>	<u>831,797</u>
TOTAL NET ASSETS	<u>384,670</u>	<u>831,797</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,662,575</u>	<u>\$ 1,703,849</u>

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, 2017
(With Comparative Totals For 2016)

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 10,389,920	\$ 9,174,796
Governmental grants and contracts	605,989	419,880
In-kind contributions	-	361,849
Other revenue	<u>28,372</u>	<u>11,240</u>
TOTAL REVENUE AND SUPPORT	11,024,281	9,967,765
Expenses:		
Program services:		
Regular education	8,324,363	7,505,928
Special education	<u>2,395,293</u>	<u>1,764,346</u>
TOTAL PROGRAM SERVICES	10,719,656	9,270,274
Management and general	<u>751,752</u>	<u>703,013</u>
TOTAL OPERATING EXPENSES	<u>11,471,408</u>	<u>9,973,287</u>
CHANGE IN NET ASSETS	(447,127)	(5,522)
Net assets at beginning of year	<u>831,797</u>	<u>837,319</u>
NET ASSETS AT END OF YEAR	<u>\$ 384,670</u>	<u>\$ 831,797</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
 (With Comparative Totals For 2016)

	No. of positions June 30, 2017	Year ended June 30,					2016 Total
		2017			2016		
		Regular Education	Special Education	Sub-total	Supporting Services Management and general	Total	
Personnel services costs:							
Administrative staff personnel	7	\$ 182,050	\$ 29,050	\$ 211,100	\$ 311,900	\$ 523,000	\$ 455,442
Instructional personnel	71	3,527,045	1,068,981	4,596,026	-	4,596,026	3,764,711
Non-instructional personnel	<u>1</u>	<u>35,759</u>	<u>7,954</u>	<u>43,713</u>	<u>-</u>	<u>43,713</u>	<u>131,207</u>
TOTAL PERSONNEL SERVICES COSTS	79	3,744,854	1,105,985	4,850,839	311,900	5,162,739	4,351,360
Fringe benefits & payroll taxes		781,309	230,747	1,012,056	65,073	1,077,129	901,305
Retirement		46,420	13,710	60,130	3,866	63,996	67,755
Management company fees		271,108	80,067	351,175	22,580	373,755	223,428
Legal services		-	-	-	41,491	41,491	46,352
Accounting / audit services		-	-	-	68,472	68,472	115,713
Other purchased / professional / consulting services		328,112	81,702	409,814	12,830	422,644	493,712
Occupancy		1,835,310	542,031	2,377,341	152,859	2,530,200	2,087,499
Repair and maintenance		198,474	58,617	257,091	16,531	273,622	237,295
Insurance		52,918	15,628	68,546	4,407	72,953	52,651
Utilities		157,346	46,470	203,816	13,105	216,921	222,836
Supplies / materials		207,451	46,145	253,596	-	253,596	335,305
Staff development		153,262	35,579	188,841	1,700	190,541	160,715
Marketing / recruitment		49,871	12,889	62,760	2,052	64,812	48,334
Technology		7,477	1,663	9,140	-	9,140	12,033
Food service		150,348	33,443	183,791	-	183,791	156,562
Student service		134,809	29,986	164,795	-	164,795	227,121
Office expense		33,253	9,821	43,074	20,557	63,631	54,795
Depreciation and amortization		169,714	50,122	219,836	14,135	233,971	178,516
Miscellaneous		<u>2,327</u>	<u>688</u>	<u>3,015</u>	<u>194</u>	<u>3,209</u>	<u>-</u>
		<u>\$ 8,324,363</u>	<u>\$ 2,395,293</u>	<u>\$ 10,719,656</u>	<u>\$ 751,752</u>	<u>\$ 11,471,408</u>	<u>\$ 9,973,287</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017
(With Comparative Totals For 2016)

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (447,127)	\$ (5,522)
Adjustments to reconcile change in net assets to net cash (used for) provided from operating activities:		
Depreciation and amortization	233,971	178,516
Changes in certain assets and liabilities affecting operations:		
Deposits	(8,861)	(4,500)
Grants and other receivables	(115,645)	(157,343)
Prepaid expenses	(257,054)	510,640
Accounts payable	(163,247)	42,712
Accrued payroll and benefits	(93,793)	28,342
Due to Charter Management Organization	119,914	-
Deferred revenue	(37,221)	-
Deferred lease liability	580,200	38,273
NET CASH (USED FOR) PROVIDED FROM OPERATING ACTIVITIES	(188,863)	631,118
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(239,809)	(476,845)
Increase in cash in escrow	(180)	(154)
NET CASH USED FOR INVESTING ACTIVITIES	(239,989)	(476,999)
NET (DECREASE) INCREASE IN CASH	(428,852)	154,119
Cash at beginning of year	603,665	449,546
CASH AT END OF YEAR	<u>\$ 174,813</u>	<u>\$ 603,665</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative Totals For 2016)

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 and will expire on June 30, 2019.

The Charter School 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. The school offers an academically rigorous curriculum, including daily Modern Hebrew studies, that leads to a high level of language fluency.

Financial Statement presentation

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

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2017 or 2016.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2017 or 2016.

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals For 2016)

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

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

Cash

Cash balances are maintained at 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, 2017 and 2016.

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, 2017 or 2016.

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.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals For 2016)

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

Cont'd

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 expense recognized in excess of the amounts paid under the lease was \$580,200 for the year ended June 30, 2017.

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, 2014 through June 30, 2017 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, and speech, occupational and physical therapy services that were provided for the students from the local district. These services are not valued in the financial statements.

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 year ended June 30, 2017. For the year ended June 30, 2016, Friends of Hebrew Language Academy Charter Schools, Inc. contributed occupancy costs of \$361,849 for real estate taxes.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$64,800 and \$48,300 for the years ended June 30, 2017 and 2016, 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.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals For 2016)

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

Comparatives for year ended June 30, 2016

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, 2016, from which the summarized information was derived.

Reclassifications

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

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 9, 2017, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: SCHOOL FACILITY

The Charter School entered into a one-year lease for space for the School as of July 1, 2015 which expired June 30, 2016. 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, 2017 was \$162,500 per month. The lease will have escalating payments throughout the term. Rent expense totaled \$2,530,200 and \$1,725,650, for the years ended June 30, 2017 and 2016, respectively. The Charter School was required to provide a security deposit, which amounted to \$212,859 and \$203,998 at June 30, 2017 and 2016, respectively.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 2,589,600
2019	2,589,600
2020	2,556,000
2021	2,600,400
2022	2,658,000
Thereafter	<u>5,298,000</u>
	<u>\$ 18,291,600</u>

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals For 2016)

NOTE C: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease agreement expiring in July 2018. Lease expense was approximately \$20,900 and \$17,600, for the years ended June 30, 2017 and 2016, respectively. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 5,991
2019	499
	<u>\$ 6,490</u>

NOTE D: 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, 2017 and 2016, the Charter School contributed \$60,970 and \$64,787, respectively, for the employer match. Administrative fees were \$3,026 and \$2,968 for the years ended June 30, 2017 and 2016, respectively.

NOTE E: 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 F: CONCENTRATIONS

At June 30, 2017 and 2016, approximately 96% and 92%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2017 and 2016, 94% and 92%, respectively, 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.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals For 2016)

NOTE G: FIXED ASSETS

Property and equipment consist of the following:

	June 30,	
	<u>2017</u>	<u>2016</u>
Furniture, fixtures and equipment	\$ 1,139,436	\$ 907,127
Leasehold improvements	<u>308,697</u>	<u>301,197</u>
	1,448,133	1,208,324
Less accumulated depreciation and amortization	<u>854,508</u>	<u>620,537</u>
	<u>\$ 593,625</u>	<u>\$ 587,787</u>

NOTE H: 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 continues through June 30, 2019. The percent of gross revenue used for the calculation is as follows:

<u>School Year</u>	<u>Percentage of Gross Revenue per Agreement</u>
2015-2016	2.5%
2016-2017	3.75%
2017-2018	5%
2018-2019	5%

For the years ended June 30, 2017 and 2016, the expense amounted to approximately \$373,800 and \$223,400, respectively. Amounts due to Hebrew Public relating to the management fee were \$119,914 at June 30, 2017. There were no amounts due at June 30, 2016.

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, 2017 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 9, 2017.

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.

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*.

We noted a certain matter that we have reported to management of Hebrew Language Academy Charter School in a separate letter dated October 9, 2017.

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, Baw & Co. LLP

Rochester, New York
October 9, 2017

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

AGREED UPON PROCEDURES

JUNE 30, 2017



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES

To the Board of Trustees of Hebrew Language Academy Charter School

We have performed the procedures identified below, which were agreed to by the management of Hebrew Language Academy Charter School and the New York State Education Department (“NYSED”) solely to assist the specified parties in evaluating the School’s assertion to the NYSED that it has maintained compliance with the requirements of the CSP grant and Federal and NYSED guidelines in managing the CSP grant.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

Procedure No. 1: We will obtain the detail of expenditures incurred for the year under review relating to the CSP grant from the Charter School’s accounting software and reconcile to the grant revenue recorded by the Charter School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result

We obtained the detail of expenditures incurred for the year under review relating to the CSP grant from the Charter School’s accounting software and the grant revenue recorded by the Charter School. We observed that the CSP grant revenue equaled the grant expenditures.

Procedure No. 2: We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the year appear reasonable.

Result

The Charter School does not file these documents. The CSP grant award is passed through from a third party; therefore, this testing is not applicable.

Procedure No. 3: We will select a sample of expenditures from the detail obtained in Procedure No. 1.

- a. Payroll – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
- b. Other expenses – We will select 10 items or 10% of the total number of other expense items charged to the grant, whichever is less.
- c. Using the above selected items, we will:
 - i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods.
 - ii. Determine if the expenditure falls into an approved budget category.
 - iii. Determine if the expenditure was charged to the appropriate fiscal year.

Result

We selected a sample of two other expenses in the year tested. There were no payroll expenses in the year tested. Based on our testing, we noted expenditures appear to be in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods, that the expenditures fall into an approved budget category, and the expenditures were charged to the appropriate fiscal year.

Procedure No. 4: We will obtain FS-25 form(s) submitted to NYSED during the year under review and perform the following:

- a. Trace expenditures selected in Procedure No. 3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of responsible charter school officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.
- b. If FS-25 forms included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will determine if funds were expended within 1 month following the date of the request and is at least the amount shown on Line 4.

Result

The Charter School does not file these documents. The CSP grant award is passed through from a third party; therefore, this testing is not applicable.

Procedure No. 5: For schools with a weighted lottery during the year under review we will:

- a. Obtain documentation the school received permission from the NYSED Charter School Office for the weighted lottery.
- b. Obtain the results of the weighted lottery.
 - Note weighted lotteries must be conducted using the NYSED Weighted Lottery Generator (WLG). When the WLG is used, a copy of the “lottery PDF” should be observed. (This PDF is generated after the WLG has conducted the lottery.)

Result

The Charter School did not use a weighted lottery; therefore, this testing was not applicable.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on Hebrew Language Academy Charter School’s compliance with the requirement of the CSP grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Hebrew Language Academy Charter School and the New York State Education Department and is not intended to be and should not be used by anyone other than the specified parties.

Mengel, Metzger, Bar & Co. LLP

Rochester, New York
September 7, 2017

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2017



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 9, 2017

To the Board of Trustees
Hebrew Language Academy Charter School

In planning and performing our audit of the financial statements of Hebrew Language Academy Charter School (the “Charter School”) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter School’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 the Charter School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this letter 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.

During the course of our audit of the financial statements of Hebrew Language Academy Charter School as of June 30, 2017 and for the year then ended, we observed the Charter School's significant accounting policies and procedures and certain business, financial and administrative practices. As a result of our observations, we suggest you consider the following comment which we do not consider to be a significant deficiency or material weakness:

Employee Reimbursement Approval

During our audit, we noted the Head of School's employee reimbursement forms were not being properly approved as documented in the Financial Policies and Procedures Manual. The Director of Operations was approving the Head of School's reimbursement forms.

Recommendation

We recommend the Charter School follow the procedures listed in its Financial Policies and Procedures Manual. A member from Hebrew Public must approve the Head of School's employee reimbursement forms before payment is made.

Incentive Bonus Approval

During our audit, we noted the incentive bonus was paid out in July 2017. We reviewed the board minutes from the school year and did not see any mention of bonuses throughout the minutes.

Recommendation

We recommend the Charter School follows the procedures listed in their Financial Procedures and Polices Manual. The Board must approve the bonus calculation and document their approval explicitly in the meeting minutes.

* * * * *

We will review the status of this comment during our next audit engagement. We have already discussed this comment with the Charter School's management, and will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

This communication is intended solely for the information and use of Management, Finance Committee Members and Board Members and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Charter School's financial statements. Should you have any questions or comments, please contact Michelle Cain or Kate Welc.

Very truly yours,



MENGEL, METZGER, BARR & CO. LLP