

**HARLEM HEBREW LANGUAGE ACADEMY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2016 AND 2015

HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

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with Government Auditing Standards**



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Harlem Hebrew Language Academy Charter School, which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

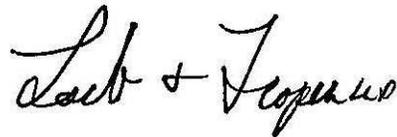
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harlem Hebrew Language Academy Charter School as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016 on our consideration of Harlem 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 Harlem Hebrew Language Academy Charter School's internal control over financial reporting and compliance.



October 14, 2016

HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 118,475 | \$ 212,165 |
| Grants and contracts receivable | 287,278 | 63,861 |
| Prepaid expenses and other assets | <u>42,438</u> | <u>183,497</u> |
| Total current assets | 448,191 | 459,523 |
| Noncurrent assets | | |
| Cash - reserves (Note 2) | 75,104 | 50,037 |
| Fixed assets - net (Note 3) | <u>490,588</u> | <u>186,761</u> |
| Total assets | <u>\$ 1,013,883</u> | <u>\$ 696,321</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 183,789 | \$ 154,822 |
| Accrued salaries and related liabilities | 358,350 | 293,741 |
| Refundable advances (Note 2) | <u>46,163</u> | <u>46,163</u> |
| Total liabilities | 542,139 | 494,726 |
| Net assets - unrestricted (Exhibit B) | <u>471,744</u> | <u>201,595</u> |
| Total liabilities and net assets | <u>\$ 1,013,883</u> | <u>\$ 696,321</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Operating revenues | | |
| State and local per-pupil operating revenues | \$ 5,100,388 | \$ 3,610,762 |
| Government grants and contracts | 555,393 | 372,035 |
| Foundations and corporate contributions | 360,513 | 402,357 |
| In-kind contributions (Note 4) | 201,885 | 147,242 |
| Other revenues | <u>32,132</u> | <u>50,806</u> |
| Total operating revenues | <u>6,250,311</u> | <u>4,583,202</u> |
| Operating expenses | | |
| Program services | | |
| General education | 4,393,169 | 3,562,356 |
| Special education | <u>1,038,383</u> | <u>500,301</u> |
| Total program services | 5,431,552 | 4,062,657 |
| Supporting services | | |
| Management and general | <u>548,610</u> | <u>491,378</u> |
| Total operating expenses (Exhibit C) | <u>5,980,162</u> | <u>4,554,035</u> |
| Change in unrestricted net assets (Exhibit D) | 270,149 | 29,167 |
| Net assets - unrestricted - beginning of year | <u>201,595</u> | <u>172,428</u> |
| Net assets - unrestricted - end of year (Exhibit A) | <u>\$ 471,744</u> | <u>\$ 201,595</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

| | 2016 | | | | Total |
|-------------------------------------|---------------------|----------------------|----------------------|---------------------------|---------------------|
| | No. of Positions | Program Services | | Supporting Services | |
| | | General Education | Special Education | Management and General | |
| Administrative staff personnel | 5 | \$ 108,875 | \$ 16,750 | \$ 253,589 | \$ 379,214 |
| Instructional personnel | 39 | 1,991,826 | 459,237 | | 2,451,063 |
| Non-instructional personnel | 4 | 78,172 | 23,123 | | 101,295 |
| Total salaries and staff | <u>48</u> | 2,178,873 | 499,110 | 253,589 | 2,931,572 |
| Payroll taxes and employee benefits | | 512,804 | 117,467 | 59,683 | 689,954 |
| Occupancy (Note 7) | | 748,244 | 171,398 | 87,085 | 1,006,727 |
| Contracted services | | 169,034 | 47,194 | 4,891 | 221,119 |
| Recruitment | | 40,229 | 11,767 | 231 | 52,227 |
| Supplies and equipment | | 173,139 | 50,763 | 19,069 | 242,971 |
| Student meal program | | 147,025 | 43,489 | | 190,514 |
| Student field trips | | 1,701 | 503 | | 2,204 |
| Repairs and maintenance | | 84,820 | 19,429 | 9,872 | 114,121 |
| Printing and postage | | 3,298 | 755 | 384 | 4,437 |
| Professional fees | | 71,379 | 16,350 | 83,074 | 170,803 |
| Dues and subscription | | 830 | 190 | 97 | 1,117 |
| Insurance | | 21,677 | 4,965 | 2,523 | 29,165 |
| Telephone and internet | | 19,490 | 4,465 | 2,268 | 26,223 |
| In-kind rent and services (Note 4) | | 150,050 | 34,371 | 17,464 | 201,885 |
| Staff travel | | | | 166 | 166 |
| Depreciation | | 70,576 | 16,167 | 8,214 | 94,957 |
| Total expenses | | <u>\$ 4,393,169</u> | <u>\$ 1,038,383</u> | <u>\$ 548,610</u> | <u>\$ 5,980,162</u> |

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HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

EXHIBIT C

-2-

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2016 AND 2015

| | 2015 | | | | |
|-------------------------------------|---------------------|----------------------|----------------------|---------------------------|---------------------|
| | No. of Positions | Program Services | | Supporting Services | Total |
| | | General Education | Special Education | Management and General | |
| Administrative staff personnel | 4 | \$ 102,375 | \$ 15,750 | \$ 229,299 | \$ 347,424 |
| Instructional personnel | 27 | 1,542,655 | 181,461 | | 1,724,116 |
| Non-instructional personnel | 4 | 75,504 | 17,586 | | 93,090 |
| Total salaries and staff | 35 | 1,720,534 | 214,797 | 229,299 | 2,164,630 |
| Payroll taxes and employee benefits | | 409,789 | 51,159 | 54,613 | 515,561 |
| Occupancy (Note 7) | | 623,484 | 77,838 | 83,091 | 784,413 |
| Contracted services | | 143,679 | 29,431 | 6,262 | 179,372 |
| Recruitment | | 55,300 | 12,355 | 647 | 68,302 |
| Supplies and equipment | | 160,325 | 36,475 | 17,675 | 214,475 |
| Student meal program | | 121,702 | 28,347 | | 150,049 |
| Student field trips | | 9,091 | 2,118 | | 11,209 |
| Repairs and maintenance | | 83,628 | 10,440 | 11,145 | 105,213 |
| Printing and postage | | 1,463 | 183 | 195 | 1,841 |
| Professional fees | | 28,906 | 3,609 | 69,229 | 101,744 |
| Dues and subscription | | 480 | 60 | 64 | 604 |
| Insurance | | 20,070 | 2,506 | 2,675 | 25,251 |
| Telephone and internet | | 17,255 | 2,155 | 2,300 | 21,710 |
| In-kind rent and services (Note 4) | | 118,520 | 22,819 | 5,903 | 147,242 |
| Staff travel | | | | 1,866 | 1,866 |
| Depreciation | | 48,130 | 6,009 | 6,414 | 60,553 |
| Total expenses | | \$ 3,562,356 | \$ 500,301 | \$ 491,378 | \$ 4,554,035 |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D**HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL****STATEMENT OF CASH FLOWS****YEARS ENDED JUNE 30, 2016 AND 2015**

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets (Exhibit B) | \$ 270,149 | \$ 29,167 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 94,957 | 60,553 |
| Decrease (increase) in assets | | |
| Grants and contracts receivable | (223,417) | 9,513 |
| Prepaid expenses and other assets | 141,059 | (143,341) |
| Increase in liabilities | | |
| Accounts payable and accrued expenses | 28,967 | 77,081 |
| Accrued salaries and related liabilities | 64,609 | 98,358 |
| Refundable advances | (46,163) | 46,163 |
| | <u>330,161</u> | <u>177,494</u> |
| Net cash provided by operating activities | | |
| Cash flows from investing activities | | |
| Fixed asset acquisitions | (398,784) | (82,117) |
| Increase in cash reserves | (25,067) | (25,037) |
| | <u>(423,851)</u> | <u>(107,154)</u> |
| Net cash used by investing activities | | |
| Net change in cash | (93,690) | 70,340 |
| Cash - beginning of year | <u>212,165</u> | <u>141,825</u> |
| Cash - end of year | <u>\$ 118,475</u> | <u>\$ 212,165</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 1 - NATURE OF ORGANIZATION

Harlem Hebrew Language Academy Charter School (HHLA) is an educational corporation that operates as a charter school in the Borough of Manhattan, New York. On July 12, 2012, 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 HHLA a charter valid for a term of 5 years and renewable upon expiration. HHLA was organized to provide its students with the strong academic and personal foundation necessary to be ethical and informed global citizens and to develop a strong sense of social and civic responsibility. This is accomplished through an academically rigorous K-5 curriculum which includes integration of service learning and community service across the curriculum. In fiscal years 2016 and 2015, HHLA operated classes for 290 students in grades K-3 and 212 students in grades K-2, respectively. HHLA opened the school on August 26, 2013.

HHLA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. HHLA 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.

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

Allowance for doubtful accounts - Bad debt expense is charged if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Management has determined that no allowance is necessary as of June 30, 2016.

Fixed assets - Fixed assets are recorded at cost. Items with a cost of \$1,000 or more with an estimated useful life of greater than one year are capitalized. Depreciation and amortization are provided on the straight-line basis over the estimated following useful lives of assets:

| | |
|-----------------------------------|-------------|
| Furniture, fixtures and equipment | 3 - 7 years |
|-----------------------------------|-------------|

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HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2016 AND 2015****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

Refundable advances - Advances represent funds received from government agencies for the following year's programs.

State and local per-pupil revenues - Revenues from the state and local governments in accordance with HHLA'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 HHLA when services are rendered.

Government grants and contract revenues and receivables - Revenues from government grants and contracts to which HHLA 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 HHLA. Receivables are recorded when the revenue is earned.

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

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

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

Functional allocation of expenses - The costs of providing the programs and other activities of HHLA 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.

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HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fundraising - Fundraising 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 - HHLA has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2013 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 14, 2016, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

| | 2016 | 2015 |
|-----------------------------------|-------------|-------------|
| Furniture, fixtures and equipment | \$ 430,046 | \$ 291,127 |
| Construction in progress | 259,865 | |
| | 689,911 | 291,127 |
| Accumulated depreciation | (199,323) | (104,366) |
| | \$ 490,588 | \$ 186,761 |

NOTE 4 - IN-KIND CONTRIBUTIONS

In-kind contributions were from two not-for-profit organizations, Friends of Hebrew Language Academy Charter Schools, Inc. and Hebrew Public. Friends of Hebrew Language Academy Charter School's contribution consisted of occupancy costs of \$56,775 and \$55,708 in 2016 and 2015, respectively. In addition, certain personnel services are paid for directly by Hebrew Public in the amount of \$145,130 and \$91,534 in 2016 and 2015, respectively. Total in-kind contributions amounted to \$201,885 and \$147,242 in 2016 and 2015, respectively.

NOTE 5 - PENSION PLAN

HHLA has a defined contribution retirement plan which covers substantially all full-time employees. HHLA contributed a dollar-to-dollar match up to 3% of the employees' compensation. Pension expense under this plan was \$58,572 and \$52,238 for the employer match and \$1,875 and \$2,935 for administrative fees in 2016 and 2015, respectively.

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HARLEM HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 6 - CONTINGENCIES AND CONCENTRATIONS

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

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

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

NOTE 7 - LEASE COMMITMENT

HHLA entered into a noncancelable lease as of July 1, 2015 which will expire on June 30, 2033. Rent for each term will be determined by mutual agreement each year. For the years ended June 30, 2016 and 2015, rent expense amounted to \$950,000 and \$700,000, respectively. Future minimum payments are as follows:

| | |
|------------|----------------------|
| 2017 | \$ 1,160,000 |
| 2018 | 1,160,000 |
| 2019 | 1,160,000 |
| 2020 | 1,160,000 |
| Thereafter | <u>15,080,000</u> |
| | <u>\$ 19,720,000</u> |

NOTE 8 - CHARTER MANAGEMENT ORGANIZATION

On January 6, 2016, HHLA entered into an educational services agreement with a charter management organization ("CMO") to provide expertise necessary to effectively provide essential programming and services to the charter school. The agreement continues through June 30, 2018. The expense for 2016 amounted to \$60,000.



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

Independent Auditor's Report

**Board of Trustees
Harlem 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 Harlem Hebrew Language Academy Charter School, which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlem 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 Harlem Hebrew Language Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Harlem 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.

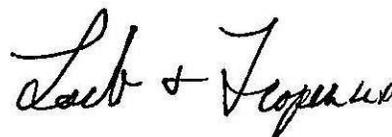
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Harlem 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.



October 14, 2016