

**HEBREW LANGUAGE ACADEMY  
CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**JUNE 30, 2010**

**HEBREW LANGUAGE ACADEMY  
CHARTER SCHOOL**

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**HEBREW LANGUAGE ACADEMY  
CHARTER SCHOOL**

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## **Independent Auditor's Report on Financial Statements**

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

We have audited the accompanying statement of financial position of Hebrew Language Academy Charter School as of June 30, 2010, and the related statements of activities, functional expenses and cash flows from inception January 13, 2009 through June 30, 2010. These financial statements are the responsibility of Hebrew Language Academy Charter School's management. 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 of material misstatement. An audit 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 Hebrew Language Academy Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows from inception January 13, 2009 through June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010 on our consideration of Hebrew Language Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Loeb + Troper LLP*

October 18, 2010

## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

## ASSETS

Assets	
Cash and cash equivalents	\$ 214,941
Accounts receivable	214,030
Prepaid expenses and other assets	19,947
Fixed assets - net (Note 3)	<u>209,014</u>
Total assets	<u>\$ 657,932</u>

## LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 293,123
Accrued salaries and related liabilities	224,929
Capital lease payable (Note 4)	<u>32,503</u>
Total liabilities	550,555
Net assets - unrestricted (Exhibit B)	<u>107,377</u>
Total liabilities and net assets	<u>\$ 657,932</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## STATEMENT OF ACTIVITIES

PERIOD FROM JANUARY 13, 2009 (DATE OF INCEPTION)

THROUGH JUNE 30, 2010

Operating revenues	
State and local per pupil operating revenues	\$ 2,024,406
Government grants and contracts	535,275
Foundations and corporate contributions	869,197
In-kind contributions (Note 5)	268,580
Other revenues	17,100
	<hr/>
Total operating revenues	3,714,558
	<hr/>
Expenses	
Program services	
General education	2,696,534
Special education	316,622
Supportive services	
Management and general	594,025
	<hr/>
Total expenses (Exhibit C)	3,607,181
	<hr/>
Change in net assets (Exhibit D)	107,377
Net assets unrestricted - beginning of period	-
	<hr/>
Net assets unrestricted - end of period (Exhibit A)	\$ 107,377
	<hr/> <hr/>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM JANUARY 13, 2009 (DATE OF INCEPTION)  
THROUGH JUNE 30, 2010

	Program Services		Supporting Services	Total
	General Education	Special Education	Management and General	
Salaries	\$ 1,201,141	\$ 168,875	\$ 252,719	\$ 1,622,735
Employee benefits and payroll taxes	231,655	30,887	46,331	308,873
Occupancy	18,580	2,477	3,716	24,773
Contracted services	524,543	42,585	10,689	577,817
Supplies and equipment	247,245	18,752	21,441	287,438
Student meal program	142,613	10,734		153,347
Student travel	13,778	1,037		14,815
Repairs and maintenance	47,853	6,380	9,571	63,804
Printing and postage	2,454	327	491	3,272
Professional fees			179,350	179,350
Dues and subscription	1,241	94		1,335
Insurance	13,773	1,836	2,755	18,364
Telephone	6,518	869	1,304	8,691
In-kind rent (Note 5)	204,492	26,349	37,739	268,580
Travel			19,789	19,789
Depreciation and amortization	38,487	5,132	7,698	51,317
Interest expense	1,830	243	365	2,438
Miscellaneous expenses	331	45	67	443
Total expenses	\$ <u>2,696,534</u>	\$ <u>316,622</u>	\$ <u>594,025</u>	\$ <u>3,607,181</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.



## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

PERIOD FROM JANUARY 13, 2009 (DATE OF INCEPTION)  
THROUGH JUNE 30, 2010

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 107,377
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	51,317
Decrease (increase) in assets	
Accounts receivable	(214,030)
Prepaid expenses and other expense	(19,947)
Increase in liabilities	
Accounts payable and accrued expenses	293,123
Accrued salaries and related liabilities	224,929
	<hr/>
Net cash provided by operating activities	442,769
Cash flows from investing activities	
Fixed asset acquisitions	(225,103)
Cash flows from financing activities	
Principal payments on capital lease	(2,725)
	<hr/>
Net increase in cash and cash equivalents	214,941
Cash and cash equivalents - beginning of period	<hr/>
	-
Cash and cash equivalents - end of period	\$ <u>214,941</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ <u>2,438</u>

Supplemental disclosure of non cash investing and financing activities  
A capital lease obligation of \$35,227 was incurred in 2010 when Hebrew Language Academy Charter School entered into a lease for new equipment.

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010****NOTE 1 - NATURE OF ORGANIZATION**

Hebrew Language Academy Charter School (HLA) is an educational corporation that operates as a charter school in the borough of Brooklyn, New York. On January 13, 2009, the Board of Regents and the Board of Trustees of the University of the State of New York on behalf of the State Education Department granted HLA a charter valid for a term of 5 years and renewable upon expiration. HLA was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. In fiscal year 2010, HLA operated classes for 157 students in grades K-1. HLA opened the school on August 24, 2009.

Hebrew Language Academy Charter School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. HLA is supported primarily by state and local per-pupil operating revenues.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting*** - The financial statements are prepared on the accrual basis of accounting.

***FASB Accounting Standards Codification*** - In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

***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.

***Receivables*** - Receivables are recorded when services are rendered. Interest is not accrued or recorded on outstanding receivables.

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## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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, 2010.

*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.

*Functional allocation of expenses* - The costs of providing the programs and other activities of HLA have been summarized on a functional basis in the statement of activities, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management in accordance with grant provisions and/or other equitable bases. Fund raising is provided on a voluntary basis by members of the Board. Such donated services do not meet the criteria to reflect the value of services on the accompanying financial statements.

*Fixed assets* - Fixed assets are recorded at cost. Items with a cost of \$500 and an estimated useful life of more than one year are capitalized. Depreciation and amortization is provided on the straight-line basis over the estimated following useful lives of assets:

Furniture, fixtures and equipment	3 - 5 years
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*Unrestricted net assets* - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

*State and local per-pupil revenues* - Revenues from the state and local governments resulting from HLA's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. Federal and state funds are recorded by HLA when expenditures are incurred and billed.

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## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Government grants and contracts* - Revenues from government grants and contracts to which HLA is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by HLA.

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

*Accounting for uncertainty in income taxes* - Effective July 1, 2009, HLA adopted the provision pertaining to uncertain tax positions (ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

*Fundraising* - Fundraising expenses are performed by volunteers (primarily the Board of Trustees). Accordingly, no expenses are reflected in the accompanying financial statements.

*Subsequent events* - Subsequent events have been evaluated through October 18, 2010, which is the date the financial statements were available to be issued.

**NOTE 3 - FIXED ASSETS**

Furniture, fixtures and equipment	\$ 260,330
Accumulated depreciation and amortization	<u>(51,316)</u>
	<u>\$ 209,014</u>

**NOTE 4 - CAPITAL LEASE PAYABLE**

During 2010, HLA entered into a capital lease agreement with Xerox Corporation for two copiers. The lease expires in January of 2015. The lease is at an interest rate of 13.5%. The total amount of the two copiers acquired through the lease is \$62,043. The cost of capital lease assets are \$35,227, with an amortization of \$5,872 as of June 30, 2010.

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## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

**NOTE 4 - CAPITAL LEASE PAYABLE (continued)**

Combined required payments of principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,682	\$ 4,045	\$ 9,727
2012	6,499	3,228	9,727
2013	7,432	2,295	9,727
2014	8,501	1,226	9,727
2015	<u>4,389</u>	<u>174</u>	<u>4,563</u>
Total minimum payments	<u>\$ 32,503</u>	<u>\$ 10,968</u>	43,471
Less amount representing interest			<u>(10,968)</u>
Present value of net minimum lease payments			<u>\$ 32,503</u>

**NOTE 5 - IN-KIND CONTRIBUTIONS**

An in-kind contribution from a not-for-profit organization, Friends of Hebrew Language Academy, consisted of donated space for the entire period amounting to a total of \$251,596. Total in-kind contribution for the period is \$268,580, which includes donated marketing services of \$16,984.

**NOTE 6 - PENSIONS**

HLA has a defined contribution retirement plan which covers substantially all full-time employees. HLA contributed an amount equal to 3% of the employees' contribution to the plan up to the legal maximum amount allowed. Pension expense under this plan was \$14,238 for the employer match and \$3,800 for administrative fees.

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**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010****NOTE 7 - CONTINGENCIES AND CONCENTRATIONS**

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

Financial instruments that potentially subject HLA to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.

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

## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## SCHEDULE OF ACTIVITIES

	Year Ended June 30, 2010	Period from January 13, 2009 (Date of Inception) Through June 30, 2009	Total
Operating revenues			
State and local per pupil operating revenues	\$ 2,024,406		\$ 2,024,406
Government grants and contracts	535,275		535,275
Foundations and corporate contributions	289,197	\$ 580,000	869,197
In-kind contributions (Note 5)	251,597	16,983	268,580
Other revenues	17,100		17,100
<b>Total operating revenues</b>	<b>3,117,575</b>	<b>596,983</b>	<b>3,714,558</b>
Salaries	1,581,818	40,917	1,622,735
Employee benefits and payroll taxes	303,484	5,389	308,873
Occupancy	22,273	2,500	24,773
Contracted services	452,633	125,184	577,817
Supplies and equipment	265,051	22,387	287,438
Student meal program	153,347		153,347
Student travel	14,815		14,815
Repairs and maintenance	63,804		63,804
Printing and postage	2,518	754	3,272
Professional fees	160,292	19,058	179,350
Dues and subscription	1,335		1,335
Insurance	18,049	315	18,364
Telephone	8,547	144	8,691
In-kind expense	251,597	16,983	268,580
Travel	8,475	11,314	19,789
Depreciation and amortization	51,186	131	51,317
Interest expense	2,438		2,438
Miscellaneous expenses	413	30	443
<b>Total expenses</b>	<b>3,362,075</b>	<b>245,106</b>	<b>3,607,181</b>
Change in net assets (Exhibit D)	\$ (244,500)	\$ 351,877	\$ 107,377

See independent auditor's report.

**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 the financial statements of Hebrew Language Academy Charter School as of and from inception January 13, 2009 through June 30, 2010, and have issued our report thereon dated October 18, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Hebrew Language Academy Charter School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness Hebrew Language Academy Charter School's internal control over financial reporting.

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 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 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether Hebrew Language Academy Charter School's financial statements are free of 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*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and the New York City Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Loeb & Troper LLP*

October 18, 2010

**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**PERIOD FROM JANUARY 13, 2009 (DATE OF INCEPTION)**  
**THROUGH JUNE 30, 2010**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ yes	_____ <u>X</u> _____ no	
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	_____ <u>X</u> _____ none reported	
Noncompliance material to financial statements noted?	_____ yes	_____ <u>X</u> _____ no	

**Section II - Financial Statement Findings**

No matters were reported.

**HEBREW LANGUAGE ACADEMY  
CHARTER SCHOOL**

**MANAGEMENT LETTER**

**JUNE 30, 2010**



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

In planning and performing our audit of the financial statements of Hebrew Language Academy Charter School ("HLA") as of and for the year ended June 30, 2010 in accordance with auditing standards generally accepted in the United States of America, we considered HLA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HLA's internal control. Accordingly, we do not express an opinion on the effectiveness of HLA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We wish to make the following observations and recommendations for consideration by management.

### Journal Entries

During the course of the audit, we noted that the fiscal department does not currently have procedures in place to ensure that journal entries are reviewed by someone other than the person initiating the transaction. The review of the general journal entries is important in helping to ensure that the transactions recorded are correct. Although we did not note any discrepancies with the journal entries, we recommend that HLA implement procedures to ensure that all general journal entries are reviewed and supporting documentation is attached. As part of the review process, the reviewers should indicate their approval with their initials.

### Cash Disbursements

Current policy requires that all disbursements in excess of \$5,000 have two signatures on the check. Although the bank is supposed to monitor this, we have found, as a general rule, they do not. Every effort should be made to be in full compliance with internal policies. In the event that it becomes impractical to obtain a second signature in a timely manner, there should be an after-the-fact signature reflecting that the appropriate person was aware that a check was issued without being co-signed.

### Banking Arrangements

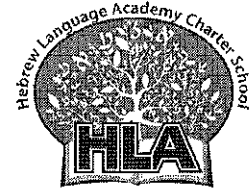
We noted a few small checks not deposited timely. We understand the practicality of taking the time to go to the bank to make the deposit. In such situations, there should be a control sheet used as a reminder that there is a deposit ready to be made.

Management should discuss with the bank whether they would be willing to provide a machine to allow scanning on site. This would avoid trips to the bank for transactions other than cash. In addition, management should inquire whether the bank supports positive pay. Positive pay requires that the organization transmit to the bank a list of checks issued in order for the bank to process a check for payment. Although we are not aware of any instances of identity theft at HLA, this has been a significant issue at other organizations. This should prevent unauthorized access to the accounts.

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

*Loeb & Troper LLP*

October 18, 2010



**October 31, 2010**

**MEMORANDUM**

**TO:** Board of Trustees of Hebrew Language Academy Charter School

**FROM:** Daniel Greendale, Director of Finance & Operations

**RE:** Response to Auditors' Management Letter for Fiscal Year 2009- 2010

**Journal Entries**

Hebrew Language Academy Charter School will implement procedures for fiscal year 2010-2011 to ensure journal entries will be reviewed by someone other than the person initiating the transaction, thereby assuring the transactions are recorded accurately. Revised procedures will be presented to and approved by the Finance Committee of the Board of Trustees. The School's financial policies and procedures manual will be updated accordingly.

**Cash Disbursements**

The two transactions above \$5,000 that were identified as missing two signatures on the check occurred in June of 2009. This was during start-up and prior to when the final version of the School's financial policies and procedures manual (FPPM) was approved by the Board of Trustees. Management appreciates and takes very seriously, the importance of adhering to the procedures established in the FPPM. Management will continue to adhere to the policy of obtaining two signatures on checks above \$5,000 as it practiced throughout the remainder of fiscal year 2009-2010.

**Banking Arrangements**

All checks are logged as received when mail is opened on a daily basis. Those that are small in value and not immediately deposited upon receipt and locked securely in a safe. Management appreciates the recommendation by the auditors and will further document procedures to deposit such small checks at a frequency that is acceptable to the Finance Committee on the Board of Trustees. Management will discuss with the School's bank whether it is willing to provide a machine to allow scanning on-site for electronic deposits and provide the School with a positive pay check fraud detection system. Upon completion of this research, management will present various options to the Finance Committee of the Board of Trustees and discuss whether to implement such systems.