

**HEBREW LANGUAGE ACADEMY  
CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**JUNE 30, 2012 AND 2011**

**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, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. 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 audits.

We conducted our audits 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 audits provide 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2012 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 audits.

Loeb & Troper LLP

September 15, 2012

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash	\$ 357,176	\$ 85,320
Escrow deposits (Note 2)	70,098	30,011
Accounts receivable	122,486	242,815
Prepaid expenses and other assets	36,951	8,505
Fixed assets - net (Note 3)	<u>125,627</u>	<u>187,246</u>
Total assets	<u>\$ 712,338</u>	<u>\$ 553,897</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 182,981	\$ 154,466
Accrued salaries and related liabilities	410,958	328,441
Capital lease payable (Note 4)	<u>20,329</u>	<u>26,821</u>
Total liabilities	614,268	509,728
Net assets - unrestricted (Exhibit B)	<u>98,070</u>	<u>44,169</u>
Total liabilities and net assets	<u>\$ 712,338</u>	<u>\$ 553,897</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
State and local per-pupil operating revenues	\$ 4,304,538	\$ 3,228,552
Government grants and contracts	349,945	451,293
Foundations and corporate contributions	9,670	19,688
In-kind contributions (Note 5)	755,384	642,194
Other revenues	<u>21,591</u>	<u>18,679</u>
Total operating revenues	<u>5,441,128</u>	<u>4,360,406</u>
Expenses		
Program services		
General education	3,657,819	3,352,151
Special education	<u>1,124,296</u>	<u>431,051</u>
Total program services	4,782,115	3,783,202
Supportive services		
Management and general	<u>605,112</u>	<u>640,412</u>
Total operating expenses (Exhibit C)	<u>5,387,227</u>	<u>4,423,614</u>
Change in unrestricted net assets (Exhibit D)	53,901	(63,208)
Net assets - unrestricted - beginning of year	<u>44,169</u>	<u>107,377</u>
Net assets - unrestricted - end of year (Exhibit A)	<u>\$ 98,070</u>	<u>\$ 44,169</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012				2011			
	Program Services		Supporting Services		Program Services		Supporting Services	
	General Education	Special Education	Management and General	Total	General Education	Special Education	Management and General	Total
Salaries	\$ 1,895,934	\$ 646,829	\$ 287,124	\$ 2,829,887	\$ 1,641,323	\$ 244,271	\$ 287,629	\$ 2,173,223
Employee benefits and payroll taxes	426,311	146,345	63,628	636,284	377,447	54,631	64,563	496,641
Occupancy	25,876	8,883	3,862	38,621	26,480	3,833	4,529	34,842
Contracted services	200,742	29,996	11,666	242,404	281,722	18,420	37,482	337,624
Supplies and equipment	200,494	29,959	31,180	261,633	189,334	12,149	36,434	237,917
Student meal program	218,843	32,701		251,544	177,637	9,349		186,986
Student travel	17,983	2,687		20,670	15,552	819		16,371
Repairs and maintenance	79,058	27,139	11,800	117,997	69,112	10,003	11,822	90,937
Printing and postage	1,129	387	169	1,685	1,149	166	197	1,512
Professional fees			109,803	109,803			107,521	107,521
Dues and subscription	3,691	552		4,243	1,590	84		1,674
Insurance	16,062	5,514	2,397	23,973	15,540	2,249	2,658	20,447
Telephone	6,778	2,326	1,012	10,116	6,064	878	1,037	7,979
In-kind rent and services (Note 5)	506,107	173,739	75,538	755,384	499,471	67,040	75,683	642,194
Travel			420	420			2,311	2,311
Depreciation and amortization	41,285	14,172	6,162	61,619	46,550	6,738	7,962	61,250
Interest expense	2,167	737	324	3,228	3,074	405	566	4,045
Bad debts	15,179	2,268		17,447				
Miscellaneous expenses	180	62	27	269	106	16	18	140
<b>Total expenses (Exhibit B)</b>	<b>\$ 3,657,819</b>	<b>\$ 1,124,296</b>	<b>\$ 605,112</b>	<b>\$ 5,387,227</b>	<b>\$ 3,352,151</b>	<b>\$ 431,051</b>	<b>\$ 640,412</b>	<b>\$ 4,423,614</b>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 53,901	\$ (63,208)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	61,619	61,250
Decrease (increase) in assets		
Accounts receivable	120,329	(28,785)
Prepaid expenses and other assets	(28,446)	11,442
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	28,515	(138,657)
Accrued salaries and related liabilities	82,517	103,512
Net cash provided (used) by operating activities	<u>318,435</u>	<u>(54,446)</u>
Cash flows from investing activities		
Fixed asset acquisitions		(39,482)
Increase in escrow deposits	<u>(40,087)</u>	<u>(20,011)</u>
Net cash used by investing activities	<u>(40,087)</u>	<u>(59,493)</u>
Cash flows from financing activities		
Principal payments on capital lease	<u>(6,492)</u>	<u>(5,682)</u>
Net increase (decrease) in cash	271,856	(119,621)
Cash - beginning of year	<u>85,320</u>	<u>204,941</u>
Cash - end of year	<u>\$ 357,176</u>	<u>\$ 85,320</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 3,228</u>	<u>\$ 4,045</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.



**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2012 AND 2011****NOTE 1 - NATURE OF ORGANIZATION**

Hebrew Language Academy Charter School (HLA) is an educational corporation that operates as a charter school in the borough of Brooklyn, New York. On January 13, 2009, the Board of Regents and the Board of Trustees of the University of the State of New York, on behalf of the State Education Department, granted HLA a charter valid for a term of 5 years and renewable upon expiration. HLA was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. In fiscal years 2012 and 2011, HLA operated classes for 310 students in grades K-3 and 240 students in grades K-2, respectively.

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

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

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

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Escrow deposits* - Escrow deposits represent funds held aside for contingency purposes as required by the New York City Department of Education.

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

*Allowance for doubtful accounts* - Bad debt expense is charged if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Management has determined that no allowance is necessary as of June 30, 2012 and 2011.

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**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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

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

Furniture, fixtures and equipment	3 - 5 years
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*Accrued salaries and related liabilities* - Accrued salaries and related liabilities consist of payroll and merit pay earned by staff during the school year but paid out over the summer months and/or following fiscal year.

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

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

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

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

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

*Functional allocation of expenses* - The costs of providing the programs and other activities of HLA have been summarized on a functional basis in the statement of activities, which include all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management in accordance with grant provisions and/or other equitable bases.

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**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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

*Fund raising* - Fund-raising services are performed by volunteers (primarily the Board of Trustees). No amounts are reflected in the accompanying financial statements for such services as they do not meet the criteria for recognition as contributions.

*Uncertainty in income taxes* - HLA has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2009 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through September 15, 2012, which is the date the financial statements were available to be issued.

**NOTE 3 - FIXED ASSETS**

	<u>2012</u>	<u>2011</u>
Furniture, fixtures and equipment	\$ 299,812	\$ 299,812
Accumulated depreciation and amortization	<u>(174,185)</u>	<u>(112,566)</u>
	<u>\$ 125,627</u>	<u>\$ 187,246</u>

**NOTE 4 - CAPITAL LEASE PAYABLE**

During 2010, HLA entered into a capital lease agreement with Xerox Corporation for two copiers. The lease expires in January of 2015. The lease has an interest rate of 13.5%. The cost of capital lease assets is \$35,227, with amortization of \$7,046 for the years ended June 30, 2012 and 2011, and accumulated amortization of \$19,963 and \$12,917 as of June 30, 2012 and 2011, respectively.

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**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**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>
2013	\$ 7,432	\$ 2,295	\$ 9,727
2014	8,501	1,226	9,727
2015	<u>4,396</u>	<u>174</u>	<u>4,570</u>
Total minimum payments	<u>\$ 20,329</u>	<u>\$ 3,695</u>	24,024
Less amount representing interest			<u>(3,695)</u>
Capital lease payable			<u>\$ 20,329</u>

**NOTE 5 - IN-KIND CONTRIBUTIONS**

In-kind contributions from a not-for-profit organization, Friends of Hebrew Language Academy Charter Schools, Inc., consisted of donated space amounting to a total of \$658,656 and \$582,175 for 2012 and 2011, respectively. In addition, other services are paid for directly by Friends of Hebrew Language Academy Charter Schools, Inc. Total in-kind contributions amounted to \$755,384 and \$642,194 for 2012 and 2011, respectively.

**NOTE 6 - PENSION PLAN**

HLA has a defined contribution retirement plan which covers substantially all full-time employees. HLA contributed a dollar-to-dollar match up to 3% of the employees' compensation. Pension expense under this plan was \$39,848 and \$27,078 for the employer match and \$1,674 and \$2,554 for administrative fees for 2012 and 2011, respectively.

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**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2012 AND 2011****NOTE 7 - CONTINGENCIES AND CONCENTRATIONS**

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

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

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



**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 for the year ended June 30, 2012, and have issued our report thereon dated September 15, 2012. 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**

Management of Hebrew Language Academy Charter School is responsible for establishing and maintaining effective 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 of 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*

September 15, 2012