HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS AND AUDITOR'S REPORTS

JUNE 30, 2010

LOEB & TROPER LLP

HEBREW LANGUAGE ACADEMY
CHARTER SCHOOL

TABLE OF CONTENTS

	Page
Independent Auditor's Report on Financial Statements	**1-2**
Exhibit	
A - Statement of Financial Position	**3**
B - Statement of Activities	**4**
C - Statement of Functional Expenses	**5**
D - Statement of Cash Flows	**6**
Notes to Financial Statements	**7-11**
Schedule	
1 - Statement of Activities for the Year Ended June 30, 2010 and the Period from January 13, 2009 (Date of Inception) through June 30, 2009	**12**

HEBREW LANGUAGE ACADEMY
CHARTER SCHOOL

TABLE OF CONTENTS

	Page
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	**13-14**
Schedule of Findings and Questioned Costs	**15**

LOEB & TROPER LLP

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

EXHIBIT A

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)		209,014
Total assets	$	657,932

LIABILITIES AND NET ASSETS

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

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B

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
Total operating revenues		3,714,558
Expenses		
Program services		
General education		2,696,534
Special education		316,622
Supportive services		
Management and general		594,025
Total expenses (Exhibit C)		3,607,181
Change in net assets (Exhibit D)		107,377
Net assets unrestricted - beginning of period		-
Net assets unrestricted - end of period (Exhibit A)	$	107,377

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT C

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	
	General Education	Special Education	Management and General	Total
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	$ 2,696,534	$ 316,622	$ 594,025	$ 3,607,181

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D

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
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)
Net increase in cash and cash equivalents		214,941
Cash and cash equivalents - beginning of period		-
Cash and cash equivalents - end of period	$	214,941
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$	2,438

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.

-continued-

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

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.

-continued-

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

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	(51,316)
	$ 209,014

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.

-continued-

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:

	Principal	Interest	Total
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	4,389	174	4,563
Total minimum payments	$ 32,503	$ 10,968	43,471
Less amount representing interest			(10,968)
Present value of net minimum lease payments			$ 32,503

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.

-continued-

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.

SCHEDULE 1

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
Total operating revenues	3,117,575	596,983	3,714,558
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
Total expenses	3,362,075	245,106	3,607,181
Change in net assets (Exhibit D)	$ (244,500)	$ 351,877	$ 107,377

See independent auditor's report.

LOEB & TROPER LLP

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:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?	_____	yes	X	no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____	yes	X	none reported
Noncompliance material to financial statements noted?	_____	yes	X	no

Section II - Financial Statement Findings

No matters were reported.