

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2020

(With Comparative Totals For 2019)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hebrew Language Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Hebrew Language Academy Charter School, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hebrew Language Academy Charter School as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Hebrew Language Academy Charter School's June 30, 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020 on our consideration of Hebrew Language Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hebrew Language Academy Charter School's internal control over financial reporting and compliance.

Emphasis of Matter with Respect to Change of Accounting Methods

As discussed in Note A to the financial statements, in 2020, Hebrew Language Academy Charter School adopted new accounting guidance for recognition of revenue, contributions received and statement of cash flows presentation. Our opinion is not modified with respect to these matters.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 28, 2020

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(With Comparative Totals For 2019)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 3,170,836	\$ 2,185,195
Grants and other receivables	357,618	402,393
Due from related parties	18,680	29,371
Prepaid expenses	12,554	28,793
TOTAL CURRENT ASSETS	<u>3,559,688</u>	<u>2,645,752</u>
<u>OTHER ASSETS</u>		
Property and equipment, net	297,615	412,477
Cash in escrow	70,668	71,092
Deposits	266,974	269,520
	<u>635,257</u>	<u>753,089</u>
TOTAL ASSETS	<u>\$ 4,194,945</u>	<u>\$ 3,398,841</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 256,374	\$ 250,221
Accrued payroll and benefits	454,255	448,659
Due to Charter Management Organization	292,750	339,561
Due to related parties	8,498	134,039
Current portion of Paycheck Protection Program note payable	579,396	-
TOTAL CURRENT LIABILITIES	<u>1,591,273</u>	<u>1,172,480</u>
<u>OTHER LIABILITIES</u>		
Non-current portion of Paycheck Protection Program note payable	\$ 722,834	\$ -
Deferred lease liability	435,600	461,400
TOTAL OTHER LIABILITIES	<u>1,158,434</u>	<u>461,400</u>
TOTAL LIABILITIES	<u>2,749,707</u>	<u>1,633,880</u>
<u>NET ASSETS</u>		
Without donor restrictions	<u>1,445,238</u>	<u>1,764,961</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,194,945</u>	<u>\$ 3,398,841</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 12,409,651	\$ 13,252,997
Governmental grants and contracts	616,387	735,034
Other revenue	<u>30,413</u>	<u>914</u>
TOTAL REVENUE AND SUPPORT	13,056,451	13,988,945
Expenses:		
Program services:		
Regular education	8,880,155	10,212,202
Special education	<u>3,502,983</u>	<u>2,716,700</u>
TOTAL PROGRAM SERVICES	12,383,138	12,928,902
Management and general	<u>993,036</u>	<u>1,013,250</u>
TOTAL OPERATING EXPENSES	<u>13,376,174</u>	<u>13,942,152</u>
CHANGE IN NET ASSETS	(319,723)	46,793
Net assets at beginning of year	<u>1,764,961</u>	<u>1,718,168</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,445,238</u>	<u>\$ 1,764,961</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020
 (With Comparative Totals For 2019)

	No. of positions June 30, 2020	Year ended June 30,					2019 Total
		2020			2019		
		Program Services			Supporting Services	Total	
	Regular Education	Special Education	Sub-total	Management and general	Total	Total	
Personnel services costs:							
Administrative staff personnel	15	\$ 709,457	\$ 210,796	\$ 920,253	\$ 366,197	\$ 1,286,450	\$ 1,416,911
Instructional personnel	67	3,020,793	1,337,630	4,358,423	25,493	4,383,916	4,641,201
Non-instructional personnel	-	-	-	-	-	-	3,834
TOTAL PERSONNEL SERVICES COSTS	82	3,730,250	1,548,426	5,278,676	391,690	5,670,366	6,061,946
Fringe benefits & payroll taxes		1,059,890	439,960	1,499,850	111,293	1,611,143	1,561,589
Retirement		30,096	12,493	42,589	3,160	45,749	56,677
Management company fees		753,808	312,905	1,066,713	79,153	1,145,866	924,018
Legal services		-	-	-	28,949	28,949	41,524
Accounting / audit services		-	-	-	106,993	106,993	113,034
Other purchased / professional / consulting services		237,672	71,700	309,372	12,459	321,831	376,559
Occupancy		1,664,887	691,094	2,355,981	174,819	2,530,800	2,530,366
Repair and maintenance		223,352	92,713	316,065	23,453	339,518	298,820
Insurance		62,429	25,914	88,343	6,555	94,898	72,583
Utilities		145,868	60,549	206,417	15,317	221,734	221,418
Supplies / materials		237,605	44,812	282,417	-	282,417	358,007
Staff development		185,505	39,605	225,110	2,141	227,251	339,996
Marketing / recruitment		52,993	11,960	64,953	911	65,864	59,323
Technology		5,350	1,009	6,359	-	6,359	5,488
Food service		150,862	28,452	179,314	-	179,314	278,397
Student service		86,412	16,297	102,709	-	102,709	252,645
Office expense		71,082	29,505	100,587	17,022	117,609	94,088
Depreciation and amortization		143,250	59,463	202,713	15,042	217,755	292,363
Miscellaneous		38,844	16,126	54,970	4,079	59,049	3,311
		<u>\$ 8,880,155</u>	<u>\$ 3,502,983</u>	<u>\$ 12,383,138</u>	<u>\$ 993,036</u>	<u>\$ 13,376,174</u>	<u>\$ 13,942,152</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (319,723)	\$ 46,793
Adjustments to reconcile change in net assets to net cash (used for) provided from operating activities:		
Depreciation and amortization	217,755	292,363
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	44,775	74,638
Due from related parties	10,691	(7,464)
Prepaid expenses	16,239	265,617
Deposits	2,546	(56,661)
Accounts payable and accrued expenses	6,153	(58,550)
Accrued payroll and benefits	5,596	43,004
Due to Charter Management Organization	(46,811)	135,177
Due to related parties	(125,541)	134,039
Deferred lease liability	(25,800)	(59,400)
NET CASH (USED FOR) PROVIDED FROM OPERATING ACTIVITIES	(214,120)	809,556
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(102,893)	(166,490)
NET CASH USED FOR INVESTING ACTIVITIES	(102,893)	(166,490)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Borrowings on Paycheck Protection Program note payable	1,302,230	-
NET CASH PROVIDED FROM FINANCING ACTIVITIES	1,302,230	-
NET INCREASE IN CASH AND RESTRICTED CASH	985,217	643,066
Cash and restricted cash at beginning of year	2,256,287	1,613,221
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 3,241,504</u>	<u>\$ 2,256,287</u>

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash	\$ 3,170,836	\$ 2,185,195
Cash in escrow	<u>70,668</u>	<u>71,092</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 3,241,504</u>	<u>\$ 2,256,287</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

(With Comparative Totals For 2019)

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

The Charter School

Hebrew Language Academy Charter School (the “Charter School”), is an education corporation operating as a charter school in the Borough of Brooklyn, New York. The Charter school opened in 2009 with a charter for a term of 5 years, granted by the Board of Regents and the Board of Trustees of the University of the State of New York, on behalf of the State Education Department. In March 2015 the charter was renewed through June 30, 2019. In May 2019, the charter was renewed for a second time and will expire on June 30, 2022.

The Charter School provides students with the academic and personal foundation necessary to successfully pursue advanced studies and achieve continued personal growth as ethical and informed global citizens. In order to accomplish this, the Charter School offers an academically rigorous curriculum which includes daily instruction in the Hebrew language.

Basis of accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Classification of net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Charter School, the accounts of the Charter School are maintained in accordance with the principles of accounting for not-for-profit organizations. This is the procedure by which resources are classified for reporting purposes into net asset groups, established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by net asset group.

The assets, liabilities, activities, and net assets are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees has discretionary control to use these in carrying on operations in accordance with the guidelines established by the Charter School.

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter School had no net assets with donor restrictions at June 30, 2020 or 2019.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Revenue recognition

Revenue from Exchange Transactions: The Charter School recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

The Charter School records substantially all revenues over time as follows:

Per pupil allocation income and students with disabilities revenue

The School recognizes revenue as educational programming is provided to students throughout the year. The School earns state and local per pupil revenue based on the approved per pupil tuition rate of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil tuition rate and the full-time equivalent student enrollment of the School. Each NYS school district has a fixed per pupil tuition rate which is calculated annually by NYSED in accordance with NYS Education Law. Amounts are billed in advance every other month and payments are typically received in six installments during the year. At the end of each school year, a reconciliation of actual enrollment to billed enrollment is performed and any additional amounts due or excess funds received are agreed upon between the School and the district(s) and are paid or recouped. Additional funding is available for students requiring special education services. The amount of additional funding is dependent upon the length of time and types of services provided by the School to each student, subject to a maximum amount based upon a set rate for each district as calculated by NYSED.

Rental assistance

Facilities rental assistance funding is provided by the New York City Dept of Education (NYCDOE) to qualifying charter schools located in the five boroughs of NYC. In order to receive rental assistance funding, a charter school must have commenced instruction or added grade levels in the 2014-15 school year or thereafter, and go through a space request process with the NYCDOE. If NYCDOE is not able to provide adequate space, the charter school can become eligible for rental assistance. Rental assistance is calculated as the lesser of 30% of the per-pupil tuition rate for NYC times the number of students enrolled, or actual total rental costs. As rental assistance is based on the number of students enrolled, revenue is recognized throughout the year as educational programming is provided to students. Rental assistance totaled \$954,329 and \$932,758 for the years ended June 30, 2020 and 2019, respectively, and is included in state and local per pupil operating revenue in the accompanying statement of activities and changes in net assets.

The following table summarizes contract balances at their respective statement of financial position dates:

	<u>June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Grants and other receivables	\$ 121,563	\$ -	\$ 259,111

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Contributions

The Charter School recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. All donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Grant revenue

Some of the School's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the School has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the accompanying statement of financial position. There were no revenues deferred at June 30, 2020 and 2019. The Charter School received cost-reimbursement grants of approximately \$11,091 and \$6,174 that have not been recognized at June 30, 2020 and 2019, respectively, because qualifying expenditures have not yet been incurred.

Cash

Cash balances are maintained at a financial institution located in New York and are insured by the FDIC up to \$250,000 at that institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School maintains cash in an escrow account, pursuant to its Charter Agreement, to pay off expenses in the event of dissolution of the Charter School. The amount in escrow was approximately \$71,000 at June 30, 2020 and 2019.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2020 or 2019.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Due from related parties

The Charter School has an amount due from other charter schools that are in the same network. The charter schools share other services in which the related parties reimburse the Charter School for these expenses. The amounts due were approximately \$18,700 and \$29,400 at June 30, 2020 and 2019, respectively.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives which range from three to seven years.

Deferred lease liability

The Charter School leases its facility. The lease contains significant pre-determined fixed escalations of the base rent. In accordance with GAAP, the Charter School recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts paid under the lease as a deferred lease liability. The amount of additional rent paid in excess of rent expense under the lease was \$25,800 and \$59,400 for the years ended June 30, 2020 and 2019, respectively.

Due to related parties

The Charter School receives meal subsidies from the federal and state governments on behalf of all the charter schools in the network. The amount due to the other charter schools was approximately \$8,500 and \$134,000 at June 30, 2020 and 2019, respectively.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant at which time it is recognized as revenue.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2017 through June 30, 2020 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed services

The Charter school receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. In addition, the Charter School received donated transportation services, office equipment, computers, classroom equipment, and speech, occupational and physical therapy services that were provided for the students from the local district. The Charter School was unable to determine a value for these services.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions received during the years ended June 30, 2020 and 2019.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$65,900 and \$59,300 for the years ended June 30, 2020 and 2019, respectively.

Use of estimates in the preparation of financial statements

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

Comparatives for year ended June 30, 2019

The financial statements include certain prior year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Adoption of New Accounting Standards

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued new guidance related to revenue recognition (ASC 606), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The School adopted ASC 606 with a date of initial application of July 1, 2019.

The Charter School applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets, at July 1, 2019. There was no adjustment to the opening balance of net assets at July 1, 2019, as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The Charter School does not expect the adoption of the new revenue standard to have a material impact on its change in net assets on an ongoing basis.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

As part of the adoption of ASC 606, the Charter School elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligation, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. The School adopted the provisions of ASU 2018-08 applicable to contributions received with a date of initial application of July 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets

Statement of cash flows

In November 2016, the FASB issued new guidance related to the statement of cash flows (ASC 230), which requires entities to include restricted cash in the reconciliation of the beginning-of-year to the end-of-year of cash in the statement of cash flows. ASC 230 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 2019. The School adopted this standard as of July 1, 2019 using the retrospective transition method.

New accounting pronouncement - leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School's financial position or results of operations.

Accounting Impact of COVID-19 Outbreak

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of corona virus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Charter School's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Charter School is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

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

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 28, 2020, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: LIQUIDITY AND AVAILABILITY

The Charter School regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Charter School's main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charter School considers all expenditures related to its ongoing activities of teaching, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Charter School's cash.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash	\$ 3,170,836	\$ 2,185,195
Grants and other receivables	357,618	402,393
Due from related parties	<u>18,680</u>	<u>29,371</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 3,547,134</u>	<u>\$ 2,616,959</u>

NOTE C: SCHOOL FACILITY

Effective September 28, 2016, the Charter School entered into an eight year lease with Friends of Hebrew Language Academy Charter Schools, Inc. for its facilities through June 30, 2024. The Charter School's base rent for the year ended June 30, 2020 was \$213,000 per month. The lease will have escalating payments throughout the term. Rent expense totaled approximately \$2,530,000 for the years ended June 30, 2020 and 2019. The Charter School was required to provide a security deposit, which amounted to \$212,859 at June 30, 2020 and 2019.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

NOTE C: SCHOOL FACILITY, Cont'd

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	2,600,400
2022	2,658,000
2023	2,616,000
2024	<u>2,682,000</u>
	<u>\$ 10,556,400</u>

NOTE D: OPERATING LEASE

The Charter School leases office equipment under four non-cancelable lease agreements expiring at various dates through September 2023. Lease expense was approximately \$84,200 and \$72,800, for the years ended June 30, 2020 and 2019, respectively. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 24,443
2022	22,420
2023	10,200
2024	<u>1,700</u>
	<u>\$ 58,763</u>

NOTE E: RETIREMENT PLAN

The Charter School has a defined contribution retirement plan which covers substantially all full-time employees. The Charter School contributed a dollar-to-dollar match up to 3% of the employees' compensation. During the years ended June 30, 2020 and 2019, the Charter School contributed \$45,749 and \$56,677, respectively, for the employer match. There were no administrative fees charged for the years ended June 30, 2020 and 2019.

NOTE F: CONTINGENCY

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

NOTE G: CONCENTRATIONS

At June 30, 2020 and 2019, approximately 50% and 54%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For both years ended June 30, 2020 and 2019, 95% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE H: FIXED ASSETS

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Furniture, fixtures and equipment	\$ 1,608,115	\$ 1,515,219
Leasehold improvements	<u>325,694</u>	<u>315,697</u>
	1,933,809	1,830,916
Less accumulated depreciation and amortization	<u>1,636,194</u>	<u>1,418,439</u>
	<u>\$ 297,615</u>	<u>\$ 412,477</u>

NOTE I: PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

In response to the COVID-19 outbreak, in April 2020, the School applied for and was approved by a bank for a loan of \$1,302,230 through the Paycheck Protection Program established by the Small Business Administration. The loan has a maturity of 2 years and an interest rate of 1%. The loan has the potential for forgiveness provided certain requirements are met by the School. The loan was funded in April 2020.

Estimated annual maturities of note payable are as followed:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 579,396
2022	<u>722,834</u>
	<u>\$ 1,302,230</u>

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019)

NOTE J: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30,	
	<u>2020</u>	<u>2019</u>
Undesignated	\$ 1,147,623	\$ 1,352,484
Invested in property and equipment	<u>297,615</u>	<u>412,477</u>
	<u>\$ 1,445,238</u>	<u>\$ 1,764,961</u>

NOTE K: CHARTER MANAGEMENT ORGANIZATION

On July 1, 2015, the Charter School entered into an educational services agreement with a charter management organization, National Center for Hebrew Language Charter School Excellence and Development, Inc. ("Hebrew Public") to provide expertise necessary to effectively provide essential programming and services to the Charter School. The agreement continued through June 30, 2019. In April 2018, the agreement was amended to increase the percentage for the 2018-2019 school year. In May 2019, the agreement was renewed through June 30, 2022. The percent of gross revenue used for the calculation is as follows:

<u>School Year</u>	<u>Percentage of Gross Revenue per Agreement</u>
2019-2020	10%
2020-2021	10%
2021-2022	10%

For the years ended June 30, 2020 and 2019, the expense amounted to approximately \$1,145,900 and \$924,000, respectively. Amounts due to Hebrew Public relating to the management fee were \$284,836 and \$230,920 at June 30, 2020 and 2019.

An additional \$7,914 and \$108,641 is due to Hebrew Public for various other expenses for which the Charter School will reimburse Hebrew Public at June 30, 2020 and 2019 .

NOTE L: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Hebrew Language Academy Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hebrew Language Academy Charter School, which comprise the statement of financial position as of June 30, 2020 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hebrew Language Academy Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hebrew Language Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Hebrew Language Academy Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hebrew Language Academy Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 28, 2020