

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2022

(With Comparative totals for 2021)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hebrew Language Academy Charter School 2

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hebrew Language Academy Charter School 2, which comprise the statement of financial position as of June 30, 2022 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hebrew Language Academy Charter School 2 as of June 30, 2022 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hebrew Language Academy Charter School 2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hebrew Language Academy Charter School 2's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hebrew Language Academy Charter School 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hebrew Language Academy Charter School 2's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Hebrew Language Academy Charter School 2's June 30, 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2022 on our consideration of Hebrew Language Academy Charter School 2'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 2's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 28, 2022

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022

(With Comparative Totals For 2021)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2022</u>	<u>2021</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 2,477,472	\$ 2,669,735
Grants and other receivables	497,456	227,751
Due from related party	66,052	39,286
Prepaid expenses	121,738	4,916
TOTAL CURRENT ASSETS	3,162,718	2,941,688
<u>OTHER ASSETS</u>		
Property and equipment, net	292,737	211,741
Cash in escrow	100,000	75,000
Deposits	61,240	68,628
	453,977	355,369
TOTAL ASSETS	\$ 3,616,695	\$ 3,297,057
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 222,027	\$ 264,302
Accrued payroll and benefits	225,844	222,197
Due to Charter Management Organization	374,117	232,691
Due to related parties	3,106	60,596
TOTAL CURRENT LIABILITIES	825,094	779,786
<u>LONG-TERM DEBT</u>		
Paycheck Protection Program loan payable	-	484,817
TOTAL LIABILITIES	825,094	1,264,603
<u>NET ASSETS</u>		
Without donor restrictions	2,791,601	2,032,454
TOTAL LIABILITIES AND NET ASSETS	\$ 3,616,695	\$ 3,297,057

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2022
(With Comparative Totals For 2021)

	<u>Year ended June 30,</u>	
	<u>2022</u>	<u>2021</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 5,563,305	\$ 5,722,448
NYC DOE rental assistance	1,050,000	1,500,000
Governmental grants and contracts	981,697	348,435
Contributions	151	80
Paycheck Protection Program loan and accrued interest forgiveness	490,722	-
TOTAL REVENUE AND SUPPORT	<u>8,085,875</u>	<u>7,570,963</u>
Expenses:		
Program services:		
Regular education	4,138,033	4,064,286
Special education	2,306,101	1,847,797
TOTAL PROGRAM SERVICES	<u>6,444,134</u>	<u>5,912,083</u>
Management and general	882,594	689,390
TOTAL OPERATING EXPENSES	<u>7,326,728</u>	<u>6,601,473</u>
CHANGE IN NET ASSETS	759,147	969,490
Net assets at beginning of year	2,032,454	1,062,964
NET ASSETS AT END OF YEAR	<u>\$ 2,791,601</u>	<u>\$ 2,032,454</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022
(With Comparative Totals For 2021)

	Number of positions	Year ended June 30,					2021
		2022			2021		
		Program Services			Supporting Services	Total	
Regular Education	Special Education	Sub-total	Management and general				
Personnel services costs:							
Administrative staff personnel	7	\$ 424,245	\$ 114,261	\$ 538,506	\$ 420,918	\$ 959,424	\$ 897,453
Instructional personnel	37	1,409,860	1,003,252	2,413,112	-	2,413,112	2,112,868
TOTAL PERSONNEL SERVICES COSTS	44	1,834,105	1,117,513	2,951,618	420,918	3,372,536	3,010,321
Fringe benefits & payroll taxes		481,203	293,195	774,398	81,836	856,234	683,504
Retirement		21,427	13,055	34,482	3,644	38,126	34,031
Management company fees		313,170	190,814	503,984	53,260	557,244	572,245
Legal services		-	-	-	5,792	5,792	1,187
Accounting / audit services		-	-	-	113,593	113,593	99,908
Other purchased / professional / consulting services		148,461	58,152	206,613	66,000	272,613	98,329
Occupancy		590,099	359,545	949,644	100,356	1,050,000	1,500,000
Repair and maintenance		8,041	4,899	12,940	1,367	14,307	34,033
Insurance		42,266	25,752	68,018	7,188	75,206	57,628
Utilities		24,437	14,889	39,326	4,156	43,482	33,380
Supplies / materials		140,005	37,072	177,077	-	177,077	71,229
Equipment / furnishings		12,154	7,405	19,559	2,067	21,626	15,975
Staff development		74,994	22,153	97,147	1,133	98,280	29,628
Marketing / recruitment		28,078	17,108	45,186	4,775	49,961	43,604
Technology		2,401	636	3,037	-	3,037	1,191
Food service		148,678	39,369	188,047	-	188,047	37,625
Student service		171,450	45,400	216,850	-	216,850	3,886
Office expense		18,961	11,553	30,514	3,225	33,739	163,952
Depreciation and amortization		54,791	33,383	88,174	9,318	97,492	88,969
Miscellaneous		23,312	14,208	37,520	3,966	41,486	20,848
		<u>\$ 4,138,033</u>	<u>\$ 2,306,101</u>	<u>\$ 6,444,134</u>	<u>\$ 882,594</u>	<u>\$ 7,326,728</u>	<u>\$ 6,601,473</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022
(With Comparative Totals For 2021)

	June 30,	
	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 759,147	\$ 969,490
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	97,492	88,969
Paycheck Protection Program loan and accrued interest forgiveness	(490,722)	-
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(269,705)	(28,469)
Due from Charter Management Organization	-	401,149
Due from related party	(26,766)	(39,286)
Prepaid expenses	(116,822)	(1,355)
Deposits	7,388	(9,906)
Accounts payable and accrued expenses	(36,370)	125,947
Accrued payroll and benefits	3,647	(29,098)
Due to Charter Management Organization	141,426	105,249
Due to related parties	(57,490)	50,234
NET CASH PROVIDED FROM OPERATING ACTIVITIES	11,225	1,632,924
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(178,488)	(105,017)
NET CASH USED FOR INVESTING ACTIVITIES	(178,488)	(105,017)
NET (DECREASE) INCREASE IN CASH AND RESTRICTED CASH	(167,263)	1,527,907
Cash and restricted cash at beginning of year	2,744,735	1,216,828
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 2,577,472</u>	<u>\$ 2,744,735</u>

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2022
(With Comparative Totals For 2021)

	<u>June 30,</u>	
	<u>2022</u>	<u>2021</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	\$ 2,477,472	\$ 2,669,735
Cash in escrow	<u>100,000</u>	<u>75,000</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 2,577,472</u>	<u>\$ 2,744,735</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

(With Comparative Totals For 2021)

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

The Charter School

Hebrew Language Academy Charter School 2 (the “Charter School”), is an education corporation operating as a charter school in the Borough of Brooklyn, New York. On November 15, 2016, the Board of Regents of the University of the State of New York, on behalf of the State Education Department, granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration on June 30, 2022. In May 2022 the charter was renewed through June 30, 2025. The Charter School also received approval from the New York City Department of Education to operate a Pre-K program beginning in Fall 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.

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.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENT, Cont'd

JUNE 30, 2022

(With Comparative Totals For 2021)

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

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

Per pupil allocation income and students with disabilities revenue

The Charter School recognizes revenue as educational programming is provided to students throughout the year. The Charter 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 Charter 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 Charter 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 Charter 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.

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

	June 30,		
	2022	2021	2020
Grants and other receivables	\$ 3,754	\$ -	\$ 52,086

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.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENT, Cont'd

JUNE 30, 2022

(With Comparative Totals For 2021)

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

Grant revenue

Some of the Charter 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 Charter 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, 2022 and 2021. The Charter School received cost-reimbursement grants of approximately \$1,077,377 and \$29,473 that have not been recognized at June 30, 2022 and 2021, 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 \$100,000 and \$75,000 at June 30, 2022 and 2021, respectively.

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, 2022 or 2021.

Due from related party

The Charter School had an amount due from another charter school that is in the same network at June 30, 2022 and 2021. The related party receives meal subsidies from the federal and state governments on behalf of the Charter School. The amount due was approximately \$66,100 and \$39,300 at June 30, 2022 and 2021 respectively.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization 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.

Major renewals and betterments are capitalized, while repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in operations.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENT, Cont'd

JUNE 30, 2022

(With Comparative Totals For 2021)

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

Due to related parties

The Charter School has amounts due to other charter schools in the same network. The charter schools shared staff support, in which the Charter School reimburses the related parties for the expenses. The amounts due were approximately \$3,100 and \$60,600 at June 30, 2022 and 2021, 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, 2019 through June 30, 2022 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, special education teacher support services, 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.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$50,000 and \$43,600 for the years ended June 30, 2022 and 2021, 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 period ended June 30, 2021

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, 2021, from which the summarized information was derived.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENT, Cont'd

JUNE 30, 2022

(With Comparative Totals For 2021)

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

Adoption of new accounting standard - gifts-in-kind

In September 2020, the FASB issued a new accounting update to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind. The update requires not-for-profit entities to present contributed nonfinancial assets separately on the statement of activities, apart from contributions of cash and other financial assets. In addition, the update requires not-for-profit entities to disclose in the notes to the financial statements a breakout of the different types of gifts-in-kinds recognized, any donor restrictions associated with the gift, the valuation technique(s) used to arrive at the fair value measure, whether or not the gift-in-kind was monetized, and any policies on monetization. The update is effective for fiscal years beginning after June 15, 2021 and is being applied on a retrospective basis. The Charter School adopted this standard during the year ended June 30, 2022.

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 coronavirus (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 2023.

In response to the COVID-19 outbreak, the Federal Government passed several COVID relief acts which include funding for elementary and secondary education. The Elementary and Secondary School Emergency Relief Fund (ESSER Fund) was established to award grants to state and local educational agencies. The Charter School has recognized \$470,383 and \$61,727 of revenue relative to ESSER grants during the years ended June 30, 2022 and 2021, respectively. At June 30, 2022, the Charter School has \$1,065,329 of ESSER grants still available through September 30, 2024.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 28, 2022, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note K.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENT, Cont'd

JUNE 30, 2022

(With Comparative Totals For 2021)

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>2022</u>	<u>2021</u>
Cash	\$ 2,477,472	\$ 2,669,735
Grants and other receivables	497,456	227,751
Due from related party	<u>66,052</u>	<u>39,286</u>
Total amounts available for general expenditures within one year	<u>\$ 3,040,980</u>	<u>\$ 2,936,772</u>

NOTE C: SCHOOL FACILITY

The Charter School entered into a one-year lease for space as of July 1, 2018 which expired June 30, 2019 with National Center for Hebrew Language Charter School Excellence and Development, Inc. ("Hebrew Public"). The Charter School's base rent was \$88,520 per month. This lease was amended in May 2019 to extend the lease through June 30, 2020 with monthly payments of \$115,876 beginning July 1, 2019. This lease was amended in May 2020 to extend the lease through June 30, 2021 with monthly payments of \$125,000 beginning July 1, 2020. Rent expense totaled \$1,500,000 for the year ended June 30, 2021. This lease was amended in June 2021 to extend the lease through June 30, 2022 with monthly payments of \$87,500. Rent expense for the year ended June 30, 2022 was \$1,050,000. This lease was amended again in April 2022 to extend the lease through June 30, 2023 with monthly payments of \$137,650. The future minimum payments on this agreement for the year ending June 30, 2023 are \$1,651,797.

In August 2018, the Charter School signed a lease agreement with Friends of Hebrew Public Borrower, LLC ("FOHPB") for future space for the Charter School. The lease was due to commence when the premises were delivered to the Charter School for use, which was estimated to be July 2020. In August 2020, the construction of this new building was terminated along with the lease agreement with Friends of Hebrew Public Borrower, LLC.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENT, Cont'd

JUNE 30, 2022

(With Comparative Totals For 2021)

NOTE C: SCHOOL FACILITY, Cont'd

To fund the new space as of August 2018, the Charter School was named in the bond financing agreement in which FOHPB entered. The Charter School also guaranteed the final installment of the development fee in the amount of \$849,740 relative to the bonds. In August 2020, the Charter School was released from the guaranty of the final installment of the development fee and all financial covenants.

Friends of HLA 2, Inc., a related party formed to hold the lease of the facility the Charter School will occupy, entered in a lease agreement with a third party in September 2020. Lease payments will begin on the delivery date which is anticipated to be January 1, 2024. The Charter School guarantees this lease. The future minimum payments to be made by Friends of HLA 2, Inc. are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ -
2024	697,888
2025	1,528,376
2026	1,798,598
2027	1,955,584
Thereafter	<u>79,132,294</u>
	<u>\$ 85,112,740</u>

The Charter School is in the process of negotiating a sublease with Friends of HLA 2, Inc. for this facility.

NOTE D: OPERATING LEASE

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through October 2025. Lease expense was approximately \$21,600 and \$16,000, for the years ended June 30, 2022 and 2021, respectively. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2023	\$ 8,925
2024	3,060
2025	3,060
2026	<u>1,020</u>
	<u>\$ 16,065</u>

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENT, Cont'd

JUNE 30, 2022

(With Comparative Totals For 2021)

NOTE E: RETIREMENT PLAN

The Charter School has a defined contribution retirement plan which covers substantially all full-time employees. The Charter School contributes a dollar-to-dollar match up to 3% of the employees' compensation. During the years ended June 30, 2022 and 2021, the Charter School contributed \$38,126 and \$34,031, respectively, for the employer match. Administrative fees were \$250 and \$323 for the years ended June 30, 2022 and 2021, respectively.

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.

NOTE G: CONCENTRATIONS

At June 30, 2022 and 2021, approximately 100% and 97%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2022 and 2021, 69% and 76%, respectively, 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: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	2022	2021
Furniture, fixtures and equipment	\$ 630,870	\$ 452,382
Leasehold improvements	1,680	1,680
	632,550	454,062
Less accumulated depreciation and amortization	339,813	242,321
	<u>\$ 292,737</u>	<u>\$ 211,741</u>

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL 2

NOTES TO FINANCIAL STATEMENT, Cont'd

JUNE 30, 2022

(With Comparative Totals For 2021)

NOTE I: PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

In response to the COVID-19 outbreak, in April 2020, the Charter School applied for and was approved by a bank for a loan of \$484,817 through the Paycheck Protection Program established by the Small Business Administration. The loan had a maturity of 2 years and an interest rate of 1%. The loan had the potential for forgiveness provided certain requirements were met by the Charter School. The loan was funded in April 2020 and is included in the accompanying statement of financial position as Paycheck Protection Program loan payable at June 30, 2021. On October 8, 2021, the Small Business Administration approved the forgiveness of the loan and accrued interest of \$5,905, which is reported as Paycheck Protection Program loan and accrued interest forgiveness on the accompanying statement of activities and changes in net assets for the year ended June 30, 2022.

NOTE J: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30,	
	2022	2021
Undesignated	\$ 2,498,864	\$ 1,820,713
Invested in property and equipment	<u>292,737</u>	<u>211,741</u>
	<u>\$ 2,791,601</u>	<u>\$ 2,032,454</u>

NOTE K: CHARTER MANAGEMENT ORGANIZATION

On June 1, 2017, the Charter School entered into an educational services agreement with a charter management organization, Hebrew Public, to provide expertise necessary to effectively provide essential programming and services to the Charter School. The agreement continued through June 30, 2022. The management fee is 10% of gross revenue per year. In October 2022, the agreement was renewed effective July 1, 2022 through June 30, 2027 with the percent of gross revenues used for the calculation of 10% for each school year.

For the years ended June 30, 2022 and 2021, the expense amounted to approximately \$557,200 and \$572,200, respectively. Amounts due to Hebrew Public relating to the management fee were \$130,308 and \$131,921 at June 30, 2022 and 2021, respectively.

In addition to the management fee, Hebrew Public paid \$156,309 and \$100,770 of other expenses on behalf of the Charter School during the years ended June 30, 2022 and 2021, respectively for which the Charter School will reimburse Hebrew Public. At June 30, 2022, the School owed \$87,500 for rent to Hebrew Public. The Charter School did not owe any rent to Hebrew Public at June 30, 2021.

The total amount due to Hebrew Public at June 30, 2022 and 2021 are \$374,117 and \$232,691, respectively.

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.