

**HEBREW LANGUAGE ACADEMY CHARTER SCHOOL**

**BROOKLYN, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2023**

**(With Comparative Totals For 2022)**



BUSINESS  
ADVISORS  
AND CPAS

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BUSINESS  
ADVISORS  
AND CPAS

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Hebrew Language Academy Charter School

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Hebrew Language Academy Charter School, which comprise the statement of financial position as of June 30, 2023 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 as of June 30, 2023 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 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.

#### ***Change in Accounting Principle***

As discussed in Note A to the financial statements, during the year ended June 30, 2023, the entity adopted new accounting guidance related to accounting for leases. Our opinion is not modified with respect to this matter.

#### ***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'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'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'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's June 30, 2022 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 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 23, 2023 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.

*Mengel, Metzger, Baw & Co. LLP*

Rochester, New York  
October 23, 2023

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

(With Comparative Totals For 2022)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	4,108,073	4,140,207
Grants and other receivables	1,321,546	1,117,078
Due from related parties	1,440	1,440
Prepaid expenses	16,399	142,060
TOTAL CURRENT ASSETS	<u>5,447,458</u>	<u>5,400,785</u>
<u>OTHER ASSETS</u>		
Property and equipment, net	422,318	456,934
Cash in escrow	100,000	100,000
Right-of-use asset - operating	1,459,315	-
Deposits	263,634	267,216
	<u>2,245,267</u>	<u>824,150</u>
TOTAL ASSETS	<u>\$ 7,692,725</u>	<u>\$ 6,224,935</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 331,170	\$ 410,460
Accrued payroll and benefits	662,615	372,861
Due to Charter Management Organization	196,524	460,036
Due to related parties	255,763	296,509
Lease liability - operating	1,794,312	-
TOTAL CURRENT LIABILITIES	<u>3,240,384</u>	<u>1,539,866</u>
<u>OTHER LIABILITIES</u>		
Deferred lease liability	-	622,557
TOTAL LIABILITIES	<u>3,240,384</u>	<u>2,162,423</u>
<u>NET ASSETS</u>		
Without donor restrictions	<u>4,452,341</u>	<u>4,062,512</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,692,725</u>	<u>\$ 6,224,935</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, 2023  
(With Comparative Totals For 2022)

	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 13,049,491	\$ 11,009,574
Governmental grants and contracts	1,810,757	1,706,824
Employee Retention Credit income	276,637	-
Paycheck Protection Program note and accrued interest forgiveness	-	1,317,817
Other revenue	<u>46,223</u>	<u>6,896</u>
TOTAL REVENUE AND SUPPORT	15,183,108	14,041,111
Expenses:		
Program services:		
Regular education	10,236,665	8,282,243
Special education	<u>3,600,938</u>	<u>3,435,084</u>
TOTAL PROGRAM SERVICES	13,837,603	11,717,327
Management and general	<u>955,676</u>	<u>875,140</u>
TOTAL OPERATING EXPENSES	<u>14,793,279</u>	<u>12,592,467</u>
CHANGE IN NET ASSETS	389,829	1,448,644
Net assets at beginning of year	<u>4,062,512</u>	<u>2,613,868</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,452,341</u>	<u>\$ 4,062,512</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, 2023  
(With Comparative Totals For 2022)

	Year ended June 30,					
	2023			2022		
	No. of positions June 30, 2023	Program Services		Sub-total	Supporting Services Management and general	Total
Personnel services costs:		Regular Education	Special Education			Total
Administrative staff personnel	10	\$ 723,837	\$ 148,310	\$ 872,147	\$ 341,402	\$ 1,213,549
Instructional personnel	64	3,111,391	1,847,637	4,959,028	-	4,959,028
TOTAL PERSONNEL SERVICES COSTS	74	3,835,228	1,995,947	5,831,175	341,402	6,172,577
Fringe benefits & payroll taxes						
Retirement		910,355	473,771	1,384,126	81,038	1,465,164
Management company fees		19,419	10,106	29,525	1,729	31,254
Legal services		1,227,556	251,520	1,479,076	90,550	1,569,626
Accounting / audit services		-	-	-	3,582	3,582
Other purchased / professional / consulting services		601,927	123,332	725,259	230,315	955,574
Occupancy		1,159,602	237,596	1,397,198	21,706	1,418,904
Repair and maintenance		482,867	98,937	581,804	35,618	617,422
Insurance		85,904	17,601	103,505	6,337	109,842
Utilities		234,256	47,998	282,254	17,280	299,534
Supplies / materials		377,865	77,423	455,288	-	455,288
Staff development		145,315	29,774	175,089	93	175,182
Marketing / recruitment		165,747	33,960	199,707	12,226	211,933
Food service		275,299	56,407	331,706	858	332,564
Student service		343,835	70,450	414,285	-	414,285
Office expense		195,692	40,096	235,788	14,435	250,223
Depreciation and amortization		164,520	33,709	198,229	12,136	210,365
Miscellaneous		11,278	2,311	13,589	834	14,423
		\$ 10,236,665	\$ 3,600,938	\$ 13,837,603	\$ 955,676	\$ 14,793,279
						\$ 12,592,467

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2023  
(With Comparative Totals For 2022)

	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 389,829	\$ 1,448,644
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Forgiveness of Paycheck Protection Program note and accrued interest	-	(1,317,817)
Depreciation and amortization	210,365	201,529
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(204,468)	(397,060)
Due from related parties	-	73,176
Prepaid expenses	125,661	(116,060)
Deposits	3,582	(2,906)
Accounts payable and accrued expenses	(79,290)	66,797
Accrued payroll and benefits	289,754	(160,106)
Due to Charter Management Organization	(263,512)	115,921
Due to related parties	(40,746)	(83,793)
Operating lease liability, net of right of use asset	334,997	-
Deferred lease liability	(622,557)	390,186
NET CASH PROVIDED FROM OPERATING ACTIVITIES	143,615	218,511
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(175,749)	(370,560)
NET CASH USED FOR INVESTING ACTIVITIES	(175,749)	(370,560)
NET DECREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(32,134)	(152,049)
Cash and cash equivalents and restricted cash at beginning of year	4,240,207	4,392,256
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	<u>\$ 4,208,073</u>	<u>\$ 4,240,207</u>



HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2023  
(With Comparative Totals For 2022)

	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Reconciliation of cash and cash equivalents and restricted cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash and cash equivalents	\$ 4,108,073	\$ 4,140,207
Cash in escrow	<u>100,000</u>	<u>100,000</u>
Total cash and cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 4,208,073</u>	<u>\$ 4,240,207</u>

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

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

(With Comparative Totals For 2022)

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 expired on June 30, 2022. In March 2022, the charter was renewed for a third time and will expire on 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. The Charter School had no net assets with donor restrictions at June 30, 2023 or 2022.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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 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. Rental assistance totaled \$1,268,819 and \$992,196 for the years ended June 30, 2023 and 2022, respectively, and is included in state and local per pupil operating revenue in the accompanying statement of activities and changes in net assets.

Universal Pre-Kindergarten (Pre-K)

Similar to state and local per pupil revenue, the Charter School recognizes Pre-K revenue as educational programming is provided to students throughout the year. The maximum revenue amount is based on a contractually determined fixed amount per student and the number of students enrolled at a point in time. This amount could be further reduced if actual costs incurred in providing the Pre-K program are less than the maximum calculated amount of the contract. Amounts are paid in installments throughout the course of the year, with the final 5% paid upon submission of all required documentation at the end of the contract year.

The amount received for the year ended June 30, 2023 was approximately \$263,000. There was no revenue received for Pre-K during the year ended June 30, 2022.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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

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

	<u>June 30,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Grants and other receivables	\$ 305,423	\$ 9,438	\$ 136,562

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 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, 2023 and 2022. The Charter School received cost-reimbursement grants of approximately \$952,315 and \$1,560,960 that have not been recognized at June 30, 2023 and 2022, respectively, because qualifying expenditures had not yet been incurred.

Cash and cash equivalents

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. The Charter School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. In the normal course of business, the cash account balances at any given time may exceed insured limits. The Charter School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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

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 at both June 30, 2023 and 2022.

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, 2023 or 2022.

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 \$1,400 at June 30, 2023 and 2022.

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.

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.

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 charter schools also share employees, for which the Charter School reimburses the related party for the expenses. The amount due to the other charter schools was approximately \$255,800 and \$169,500 at June 30, 2023 and 2022, respectively. In addition, at June 30, 2022 the Charter School owed approximately \$127,000 to Friends of Hebrew Language Academy Charter Schools, Inc. for rent. The Charter School did not have any amounts due to Friends of Hebrew Language Academy Charter Schools, Inc. at June 30, 2023.

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.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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

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, 2020 through June 30, 2023 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, nursing, 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 \$211,900 and \$98,700 for the years ended June 30, 2023 and 2022, respectively.

Leases

The Charter School leases its school facility and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) asset and current liabilities on the accompanying statement of financial position. There were no finance leases at June 30, 2023.

ROU assets represent the Charter School's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Charter School uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Charter School will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The Charter School's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Charter School considers factors such as if the Charter School has obtained substantially all of the rights to the underlying asset through exclusivity, if the Charter School can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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

Adoption of new accounting standard – 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 adopted ASC 842 with the date of initial application of July 1, 2022.

The Charter School recognized and measured leases existing at July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

As part of the adoption of ASC 842, the Charter School elected practical expedients to account for the existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard; (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance; or (c) whether the unamortized initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Charter School recognized on July 1, 2022 a lease liability of \$3,491,615, which represents the present value of the remaining operating lease payments of \$3,588,027, discounted using the risk-free rate of 2.84%, and a right-of-use asset of \$2,869,058 which represents the operating lease liability of \$3,491,615 adjusted for deferred rent of \$622,557.

The standard had a material impact on the accompanying statement of financial position, but did not have an impact on the statement of activities and changes in net assets, nor statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

New accounting pronouncement – credit losses

In June 2016 the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13), which requires entities to use a new impairment model referred to as the current expected credit losses (CECL) model rather than incurred losses. The new standard affects accounting for loans, accounts (trade) receivable, held-to-maturity debt securities, and other financial assets included in the scope. For non-public entities, the new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. 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.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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

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, 2022

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, 2022, from which the summarized information was derived.

Accounting Impact of COVID-19 Outbreak

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 \$665,713 and \$787,902 of revenue relative to ESSER grants during the years ended June 30, 2023 and 2022, respectively. At June 30, 2023, the Charter School has \$886,888 of ESSER grants still available through September 30, 2024.

On March 7, 2020, the CARES Act was enacted. Under the CARES Act, the Employee Retention Credit, a refundable, wage related tax credit, was made available to eligible employers. The Charter School recognized a benefit of approximately \$277,000, recorded as Employee Retention Credit income related to this credit during the year ended June 30, 2023. There were no benefits from the Employee Retention Credit recorded during the year ended June 30, 2022.

Reclassifications

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

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 23, 2023, 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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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 and cash equivalent 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:

	June 30,	
	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,108,073	\$ 4,140,207
Grants and other receivables	1,321,546	1,117,078
Due from related parties	<u>1,440</u>	<u>1,440</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 5,431,059</u>	<u>\$ 5,258,725</u>

NOTE C: 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, 2023 and 2022, the Charter School contributed \$31,254 and \$54,119, respectively, for the employer match. There were no administrative fees charged for the years ended June 30, 2023 and 2022.

NOTE D: 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, 2023

(With Comparative Totals For 2022)

NOTE E: CONCENTRATIONS

At June 30, 2023 and 2022, approximately 75% and 93%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2023 and 2022, 86% and 78%, 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 F: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>
Furniture, fixtures and equipment	\$ 2,288,592	\$ 2,119,564
Leasehold improvements	<u>332,415</u>	<u>325,694</u>
	2,621,007	2,445,258
Less accumulated depreciation and amortization	<u>2,198,689</u>	<u>1,988,324</u>
	<u>\$ 422,318</u>	<u>\$ 456,934</u>

NOTE G: 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 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 note payable at June 30, 2021. On January 10, 2022, the Small Business Administration approved the forgiveness of the loan and accrued interest of \$15,587, which is reported as Paycheck Protection Program note and accrued interest forgiveness on the accompanying statement of activities and changes in net assets for the year ended June 30, 2022.

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE H: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30,	
	<u>2023</u>	<u>2022</u>
Undesignated	\$ 4,030,023	\$ 3,605,578
Invested in property and equipment	<u>422,318</u>	<u>456,934</u>
	<u>\$ 4,452,341</u>	<u>\$ 4,062,512</u>

NOTE I: 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 with the percent of gross revenue used for the calculation of 10% for each school year. In October 2022, the agreement was renewed effective July 1, 2022 through June 30, 2027 with the percent of gross revenue used for the calculation of 10% for each school year.

For the years ended June 30, 2023 and 2022, the expense amounted to approximately \$1,569,600 and \$1,003,000, respectively. Amounts due to Hebrew Public relating to the management fee were \$251,747 at June 30, 2022. There were no amounts due to Hebrew Public relating to the management fee at June 30, 2023.

An additional \$196,524 and \$208,289 is due to Hebrew Public for various other expenses for which the Charter School will reimburse Hebrew Public at June 30, 2023 and 2022, respectively.

NOTE J: 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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE K: LEASES

The Charter School leases a building from Friends of Hebrew Language Academy Charter Schools, Inc. ("FOHLA") with a monthly payment of approximately \$151,000 through June 30, 2024. The Charter School was required to provide a security deposit, which amounted to \$212,859 at June 30, 2023 and 2022. Lease expense paid was approximately \$1,800,000 and \$1,500,000 for the years ended June 30, 2023 and 2022, respectively.

A summary of lease right-of-use asset and liability at June 30, 2023 is as follows:

<u>Statement of Financial Position Classification</u>		
<u>Assets</u>		
Right-of-use asset - operating	Other Assets	<u>\$ 1,459,315</u>
<u>Liabilities</u>		
Current:		
Lease liability - operating	Current liabilities	<u>\$ 1,794,312</u>

The components of lease expense for the year ended June 30, 2023 were as follows:

Operating lease expense	<u>\$ 1,482,735</u>
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As of June 30, 2023, minimum payment due for the lease liability for the next fiscal year is as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2024	<u>\$ 1,817,732</u>
Total lease payments	1,817,732
Less: Interest	<u>(23,420)</u>
Present value of lease liabilities	<u>\$ 1,794,312</u>

Supplemental information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows paid for operating leases	\$ 1,770,295
Weighted-average remaining lease term:	
Operating leases	1 year
Weighted-average discount rate:	
Operating leases	2.84%

HEBREW LANGUAGE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE K: LEASES, Cont'd

In July 2023, the Charter School entered into a lease agreement for equipment through July 2028 with monthly payments of \$3,866. Minimum payments due for the lease for the next 5 fiscal years are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2024	\$ 42,522
2025	46,388
2026	46,388
2027	46,388
2028	3,866
	<u>\$ 185,552</u>