

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

QUEENS, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2021

(With Comparative Totals for 2020)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Our World Neighborhood Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Our World Neighborhood Charter Schools (the "Charter Schools"), which comprise the statement of financial position as of June 30, 2021, 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 Charter Schools' 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 Charter Schools' 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 Our World Neighborhood Charter Schools as of June 30, 2021, 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 Our World Neighborhood Charter Schools' June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 29, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 25, 2021 on our consideration of Our World Neighborhood Charter Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Our World Neighborhood Charter Schools' internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 25, 2021

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

(With Comparative Totals for 2020)

	<u>June 30,</u>	
<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 4,992,484	\$ 4,262,280
Grants and contracts receivable	574,055	346,006
Prepaid expenses	<u>365,114</u>	<u>295,950</u>
TOTAL CURRENT ASSETS	5,931,653	4,904,236
 <u>PROPERTY AND EQUIPMENT, net</u>	 1,474,484	 1,414,510
 <u>OTHER ASSETS</u>		
Cash in escrow	107,064	105,946
Security deposits	<u>522,599</u>	<u>522,599</u>
	<u>629,663</u>	<u>628,545</u>
TOTAL ASSETS	<u>\$ 8,035,800</u>	<u>\$ 6,947,291</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 204,287	\$ 78,037
Accrued payroll and benefits	1,645,458	1,489,206
Deferred revenue	-	19,842
Current portion of long term debt	<u>-</u>	<u>887,975</u>
TOTAL CURRENT LIABILITIES	1,849,745	2,475,060
 <u>OTHER LIABILITIES</u>		
Deferred lease liability	2,698,244	1,866,998
Long term debt	<u>2,018,605</u>	<u>1,130,630</u>
	<u>4,716,849</u>	<u>2,997,628</u>
TOTAL LIABILITIES	6,566,594	5,472,688
 <u>NET ASSETS, without donor restrictions</u>	 <u>1,469,206</u>	 <u>1,474,603</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,035,800</u>	<u>\$ 6,947,291</u>

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

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2021
 (With Comparative Totals for 2020)

	Without donor restrictions	
	Year ended June 30,	
	2021	2020
Revenue, gains and other support:		
Public school district		
Resident student enrollment	\$ 15,846,899	\$ 14,601,135
Students with disabilities	1,483,201	1,242,219
Grants and contracts		
State and local	74,672	243,845
Federal - Title and IDEA	358,177	315,931
Federal - Other	309,279	18,412
NYC DOE rental assistance	1,215,875	887,580
Food service / child nutrition program	78,603	157,613
TOTAL REVENUE, GAINS AND OTHER SUPPORT	19,366,706	17,466,735
Expenses:		
Program services:		
Regular education	14,585,275	13,533,441
Special education	1,394,601	1,480,611
Total program services	15,979,876	15,014,052
Management and general	3,314,570	3,223,083
Fundraising	105,932	111,640
TOTAL OPERATING EXPENSES	19,400,378	18,348,775
DEFICIT FROM SCHOOL OPERATIONS	(33,672)	(882,040)
Support and other revenue:		
Contributions		
Foundations	19,842	110,211
Individuals	5,896	10,207
Fundraising	-	4,584
Interest income	1,852	6,715
Miscellaneous income	685	14,750
TOTAL SUPPORT AND OTHER REVENUE	28,275	146,467
CHANGE IN NET ASSETS	(5,397)	(735,573)
Net assets at beginning of year	1,474,603	2,210,176
NET ASSETS AT END OF YEAR	\$ 1,469,206	\$ 1,474,603

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

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021
 (With Comparative Totals for 2020)

	No. of Positions	Year ended June 30,						Total	Total
		2021			2020				
		Program Services			Supporting Services				
Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Total	Total		
Personnel services costs:									
Administrative staff personnel	32	\$ 1,167,927	\$ 112,030	\$ 1,279,957	\$ 1,393,625	\$ 85,018	\$ 1,478,643	\$ 2,758,600	\$ 2,584,349
Instructional personnel	105	6,449,590	1,004,698	7,454,288	-	-	-	7,454,288	6,815,745
Non-instructional personnel	2	99,399	-	99,399	50,775	-	50,775	150,174	147,030
Total personnel services costs	139	7,716,916	1,116,728	8,833,644	1,444,400	85,018	1,529,418	10,363,062	9,547,124
Fringe benefits and payroll taxes		1,365,633	202,777	1,568,410	261,640	15,759	277,399	1,845,809	2,077,424
Retirement		366,569	51,311	417,880	80,211	5,155	85,366	503,246	443,459
Legal service		-	-	-	115,366	-	115,366	115,366	83,250
Accounting / audit services		-	-	-	48,060	-	48,060	48,060	62,187
Other purchased / professional / consulting services		331,779	-	331,779	337,775	-	337,775	669,554	607,686
Building and land rent / lease / facility finance interest		2,797,401	-	2,797,401	623,849	-	623,849	3,421,250	3,027,374
Repairs and maintenance		359,187	-	359,187	89,575	-	89,575	448,762	333,931
Insurance		101,598	-	101,598	25,076	-	25,076	126,674	102,845
Utilities		291,235	-	291,235	74,441	-	74,441	365,676	388,987
Supplies / materials		197,762	-	197,762	66,152	-	66,152	263,914	246,132
Equipment / furnishings		12,254	-	12,254	1,551	-	1,551	13,805	34,333
Staff development		94,078	21,435	115,513	3,300	-	3,300	118,813	168,239
Marketing / recruitment		85,054	2,350	87,404	-	-	-	87,404	119,517
Technology		88,019	-	88,019	30,320	-	30,320	118,339	158,649
Food service		111,558	-	111,558	-	-	-	111,558	269,926
Student services		(145)	-	(145)	-	-	-	(145)	10,028
Office expense		107,077	-	107,077	35,787	-	35,787	142,864	153,619
Depreciation		524,902	-	524,902	54,261	-	54,261	579,163	465,555
Other		34,398	-	34,398	22,806	-	22,806	57,204	48,510
		<u>\$ 14,585,275</u>	<u>\$ 1,394,601</u>	<u>\$ 15,979,876</u>	<u>\$ 3,314,570</u>	<u>\$ 105,932</u>	<u>\$ 3,420,502</u>	<u>\$ 19,400,378</u>	<u>\$ 18,348,775</u>

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

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	<u>Year ended June 30,</u>	
	<u>2021</u>	<u>2020</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (5,397)	\$ (735,573)
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	579,163	465,555
Changes in certain assets and liabilities affecting operations:		
Grants and contracts receivable	(228,049)	123,910
Prepaid expenses and other current assets	(69,164)	(146,739)
Accounts payable and accrued expenses	126,250	(339,512)
Accrued payroll and benefits	156,252	208,269
Deferred revenue	(19,842)	(110,211)
Deferred lease liability	831,246	886,563
	<u>1,370,459</u>	<u>352,262</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES		
	1,370,459	352,262
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(639,137)	(399,283)
Security deposits	-	(21,213)
	<u>-</u>	<u>(420,496)</u>
NET CASH USED FOR INVESTING ACTIVITIES		
	(639,137)	(420,496)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Borrowings on long term debt	-	2,018,605
	<u>-</u>	<u>2,018,605</u>
NET CASH PROVIDED FROM FINANCING ACTIVITIES		
	-	2,018,605
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	731,322	1,950,371
Cash, cash equivalents, and restricted cash at beginning of year	<u>4,368,226</u>	<u>2,417,855</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	<u>\$ 5,099,548</u>	<u>\$ 4,368,226</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	<u>Year ended June 30,</u>	
	<u>2021</u>	<u>2020</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</u>		
Reconciliation of cash, 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	\$ 4,992,484	\$ 4,262,280
Cash in escrow	<u>107,064</u>	<u>105,946</u>
	<u>\$ 5,099,548</u>	<u>\$ 4,368,226</u>

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

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

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

The Charter School

Our World Neighborhood Charter Schools is an education corporation that has authority to operate the Charter Schools as described below. The education corporation was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education.

Our World Neighborhood Charter School ("OWN") is a charter school that operates under the education corporation in the borough of Queens, New York. On July 18, 2012, the Board of Regents of the University of the State of New York granted OWN a charter valid for a term of five years and renewed for an additional five years through July 31, 2022.

On June 13, 2016, the Board of Regents of the University of the State of New York amended the OWN charter agreement permitting additional charter schools under OWN's education corporation. During the 2017 fiscal year, OWN added Our World Neighborhood Charter School 2 ("OWN 2") under its expanded charter. The school opened for students in Fall 2018. The charter is valid until July 2023.

On October 18, 2018, the Board of Regents of the University of the State of New York approved an additional charter school, Our World Neighborhood Charter School 3 ("OWN 3"), to operate under the OWN education corporation. OWN 3 is expected to open in Fall 2022. Operating activities have not commenced as of June 30, 2021.

Basis of presentation

The accompanying financial statements include the accounts of OWN, OWN 2 and OWN 3 (collectively referred to as the "Charter Schools"). All intercompany balances and transactions have been eliminated in the accompanying financial statements.

Financial Statement presentation

The financial statements of the Charter Schools have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter Schools report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

These classes of net assets are defined as follows:

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 Schools had no net assets with donor restrictions at June 30, 2021 or 2020.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

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

Net Assets Without Donor Restrictions – The net assets over which the Board of Trustees has discretionary control to use in carrying on the Charter Schools' operations in accordance with the guidelines established by the Charter Schools. The Board may designate portions of the current net assets without donor restrictions for specific purposes, projects or investment.

Revenue recognition

Revenue from Exchange Transactions: The Charter Schools recognize 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 Schools record substantially all revenues over time as follows:

Public school district revenue

The Charter Schools recognize revenue as educational programming is provided to students throughout the year. The Charter Schools earn public school district 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 Schools. 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 Schools 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 Schools 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,		
	2021	2020	2019
Grants and contracts receivable	\$ 118,020	\$ 182,687	\$ -

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

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

Contributions

The Charter Schools recognize 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. No contributions were deferred at June 30, 2021. Approximately \$20,000 was deferred at June 30, 2020, primarily related to one grant agreement.

Contributions and unconditional promises to give are recorded as revenue in the appropriate class of net assets depending on the existence of any donor restrictions. A contribution that is received and expended in the same period for a specific purpose is classified as revenue without donor restrictions.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, 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 Schools' 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 Schools have 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. The Charter Schools received cost-reimbursement grants of approximately \$14,500 and \$20,800 that have not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures have not yet been incurred.

Cash and cash equivalents

Cash and certain money market account balances are maintained at financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. The Charter Schools consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In the normal course of business, the cash and cash equivalent account balances at any given time may exceed insured limits. However, the Charter Schools have not experienced any losses in such accounts and do not believe they are exposed to significant risk in cash and cash equivalents.

Cash in escrow

The Charter Schools maintain cash in escrow accounts, in accordance with the terms of the Charter Agreements. A portion of the account is invested in a certificate of deposit with a maturity date of one year or less. The escrow is restricted to fund legal and other costs related to the dissolution of the Charter Schools, should this become necessary. The amount in escrow was \$107,064 and \$105,946 at June 30, 2021 and 2020, respectively.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

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

Grants and contracts receivable

Grants and contracts receivable 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, 2021 or 2020.

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 typically range from three to twenty 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 reflect in operations.

Security deposits

Security deposits consist of payments to third parties in connection with facility lease agreements.

Deferred lease liability

The Charter Schools lease their facilities. The leases contain pre-determined fixed escalations of the base rent. In accordance with GAAP, the Charter Schools recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as a deferred lease liability. The amount of additional rent expense recognized in excess of the amounts paid under the leases was \$831,246 and \$886,563 for the years ended June 30, 2021 and 2020, respectively.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution.

Tax exempt status

The education corporation is a tax-exempt entity 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 education corporation files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2018 through June 30, 2021 are still subject to potential audit by the IRS. Management of the education corporation believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Contributed services

The Charter Schools receive contributed services from volunteers to serve on the Board of Trustees. In addition, the Charter Schools receive transportation services and a school nurse for the students from the local district. The Charter Schools were unable to determine a value for these services.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

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

Marketing and costs

The Charter Schools expense marketing costs as they are incurred. Total marketing and recruiting costs approximated \$87,400 and \$119,500 for the years ended June 30, 2021 and 2020, respectively.

Comparatives for year ended June 30, 2020

The financial statements include certain prior year summarized comparative information in total but not by net asset class or 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 Schools' financial statements for the year ended June 30, 2020, from which the summarized information was derived.

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.

New accounting pronouncements

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 Schools are currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter Schools' financial position or results of operations.

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-kind 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 will be applied on a retrospective basis. The Charter Schools are currently evaluating the provisions of this update to determine the impact it will have on the Charter Schools' financial statements.

Subsequent events

The Charter Schools have conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 25, 2021, which is the date the financial statements are available to be issued. See Note D and Note F.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

NOTE B: LIQUIDITY AND AVAILABILITY

The Charter Schools regularly monitor liquidity required to meet their operating needs and other contractual commitments. The Charter Schools' main source of liquidity is their cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charter Schools consider all expenditures related to their ongoing activities of education 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 Schools anticipate 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 Schools' cash and shows positive cash generated by operations for fiscal years 2021 and 2020.

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 4,992,484	\$ 4,262,280
Grants and contracts receivable	<u>574,055</u>	<u>346,006</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 5,566,539</u>	<u>\$ 4,608,286</u>

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 4,384,940	\$ 4,242,268
Equipment and furniture and fixtures	<u>3,669,633</u>	<u>3,173,168</u>
	8,054,573	7,415,436
Less accumulated depreciation	<u>6,580,089</u>	<u>6,000,926</u>
	<u>\$ 1,474,484</u>	<u>\$ 1,414,510</u>

Total depreciation expense was \$579,163 and \$465,555 for the years ended June 30, 2021 and 2020, respectively.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

NOTE D: COMMITMENTS

The Charter School leases classrooms and office facilities under non-cancelable lease agreements expiring at various dates through August 2048. Total rent expense for these spaces amounted to approximately \$3,378,000 and \$2,992,100 for the years ended June 30, 2021 and 2020. In August 2021, the Charter School entered into a lease agreement for an additional school facility. This lease will commence the earlier of January 1, 2023 or July 1, 2023, dependent on the completion of certain improvements to be made by the landlord. As the commencement date of the lease is unknown the future minimum payments on this lease are not included in the amounts below, but monthly payments will begin at \$99,847 and increase to \$235,295 over the 30-year term of the lease. The Charter Schools have the option to terminate the lease at various points throughout the lease term, the first at 12 years after commencement. The lease requires payment of a \$300,000 security deposit.

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through July 2022. Total expense for these leases amounted to approximately \$139,900 and \$143,800 for the years ended June 30, 2021 and 2020.

The minimum lease payments for the above cited leases are approximately as follows:

<u>Year ending June 30,</u>	<u>Facilities Leases</u>	<u>Equipment Leases</u>	<u>Total</u>
2022	\$ 3,127,500	\$ 85,200	\$ 3,212,700
2023	3,470,300	2,700	3,473,000
2024	2,847,200	-	2,847,200
2025	2,710,500	-	2,710,500
2026	2,509,600	-	2,509,600
Thereafter	<u>56,962,400</u>	<u>-</u>	<u>56,962,400</u>
	<u>\$ 71,627,500</u>	<u>\$ 87,900</u>	<u>\$ 71,715,400</u>

NOTE E: RETIREMENT PLAN

The Charter School sponsors a 401(k) plan (the "Plan") for its employees. All employees of the Charter School are eligible to participate. The Charter School matches 100% of the employee's contributions up to 3% of eligible compensation and makes a safe harbor contribution of 3% of eligible compensation per year. During the years ended June 30, 2021 and 2020, the Charter School contributed approximately \$503,200 and \$443,500, respectively, to the Plan.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

NOTE F: LONG TERM DEBT

In response to the COVID-19 outbreak, in April 2020 the Charter Schools applied for and were approved by a bank for a loan of \$2,018,605 through the Paycheck Protection Program established by the Small Business Administration. The loan had a maturity of 2 years and an interest rate of 0.98%. The loan had the potential for forgiveness provided certain requirements were met by the Charter Schools. The loan was funded on April 25, 2020. On September 3, 2021, the loan was forgiven in full by the SBA, therefore the entire balance is classified as long-term at June 30, 2021.

NOTE G: 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 H: CONCENTRATIONS

At June 30, 2021, approximately 60% of grants and contracts receivable are due from New York State Department of Education relating to certain grants. During the year ended June 30, 2021, 89% 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 Schools' students are located.

At June 30, 2020, approximately 89% of grants and contracts receivable are due from New York State Department of Education relating to certain grants. During the year ended June 30, 2020, 91% of total operating revenue and support came from per-pupil funding. The per-pupil rate is set annually by the State based on the school district in which the Charter Schools' students are located.

NOTE I: 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. Expenses (including salaries, benefits and payroll taxes, purchased services, occupancy costs, and supplies and materials) which are allocated to more than one program or supporting function are allocated on the basis of estimates of time, effort, and usage.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

NOTE J: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30,	
	<u>2021</u>	<u>2020</u>
Undesignated	\$ (5,278)	\$ 60,093
Invested in property and equipment	<u>1,474,484</u>	<u>1,414,510</u>
	<u>\$ 1,469,206</u>	<u>\$ 1,474,603</u>

There were no net assets with donor restrictions at June 30, 2021 and 2020.

NOTE K: 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 2022.

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 \$215,027 of revenue relative to ESSER grants during the year ended June 30, 2021.

NOTE L: RENEWAL PROCESS

The Charter Schools are currently in the process of renewing the charter granted by the Board of Regents of the University of the State of New York for OWN. The charter currently expires July 31, 2022. The renewal process includes review by the State University of New York Charter Schools Institute (CSI) of various operational and governance aspects, including fiscal health and internal controls, board governance, and academic performance. OWN has submitted its application for a one year renewal of its charter commencing August 1, 2022 to align its charter renewal with other schools under the education corporation. Upon review of the application and results, CSI will determine if the charter should be renewed. At this time, management of the Charter Schools expects the charter to be renewed.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Our World Neighborhood Charter Schools

We have audited the financial statements of Our World Neighborhood Charter Schools as of and for the year ended June 30, 2021, and have issued our report thereon dated October 25, 2021, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The financial information hereinafter is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 25, 2021

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2021

	<u>Our World Neighborhood Charter School</u>	<u>Our World Neighborhood Charter School 2</u>	<u>Eliminations</u>	<u>Total</u>
Revenue, gains, and other support:				
Public school district				
Resident student enrollment	\$ 11,792,771	\$ 4,054,128	\$ -	\$ 15,846,899
Students with disabilities	1,044,274	438,927	-	1,483,201
Grants and contracts				
State and local	57,872	16,800	-	74,672
Federal - Title and IDEA	242,674	115,503	-	358,177
Federal - Other	248,200	61,079	-	309,279
NYC DOE rental assistance	-	1,215,875	-	1,215,875
Food service / child nutrition program	78,603	-	-	78,603
TOTAL REVENUE, GAINS AND OTHER SUPPORT	<u>13,464,394</u>	<u>5,902,312</u>	-	<u>19,366,706</u>
Expenses:				
Program services:				
Regular education	9,491,170	5,094,105	-	14,585,275
Special education	1,121,191	273,410	-	1,394,601
Total program services	10,612,361	5,367,515	-	15,979,876
Management and general	2,379,225	935,345	-	3,314,570
Fundraising	88,874	17,058	-	105,932
TOTAL OPERATING EXPENSES	<u>13,080,460</u>	<u>6,319,918</u>	-	<u>19,400,378</u>
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	383,934	(417,606)	-	(33,672)
Support and other revenue:				
Contributions				
Foundations	-	19,842	-	19,842
Individuals	5,896	-	-	5,896
Fundraising	-	-	-	-
Interest income	962	890	-	1,852
Miscellaneous income	685	-	-	685
TOTAL SUPPORT AND OTHER REVENUE	<u>7,543</u>	<u>20,732</u>	-	<u>28,275</u>
CHANGE IN NET ASSETS	391,477	(396,874)	-	(5,397)
Net assets (deficiency) at beginning of year	<u>3,417,136</u>	<u>(1,942,533)</u>	-	<u>1,474,603</u>
NET ASSETS (DEFICIENCY) AT END OF YEAR	<u>\$ 3,808,613</u>	<u>\$ (2,339,407)</u>	<u>\$ -</u>	<u>\$ 1,469,206</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER – OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

YEAR ENDED JUNE 30, 2021

	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Sub-total	Management and general	Fundraising	Sub-total	
Personnel services costs:								
Administrative staff personnel	25	\$ 908,238	\$ 112,030	\$ 1,020,268	\$ 1,064,490	\$ 68,014	\$ 1,132,504	\$ 2,152,772
Instructional personnel	77	4,769,947	790,067	5,560,014	-	-	-	5,560,014
Non-instructional personnel	2	99,399	-	99,399	50,775	-	50,775	150,174
Total personnel services costs	104	5,777,584	902,097	6,679,681	1,115,265	68,014	1,183,279	7,862,960
Fringe benefits and payroll taxes		1,045,940	160,021	1,205,961	231,831	15,705	247,536	1,453,497
Retirement		289,113	44,268	333,381	72,282	5,155	77,437	410,818
Legal service		-	-	-	115,293	-	115,293	115,293
Accounting / audit services		-	-	-	38,400	-	38,400	38,400
Other purchased / professional / consulting services		218,653	-	218,653	287,710	-	287,710	506,363
Building and land rent / lease / facility finance interest		921,781	-	921,781	228,464	-	228,464	1,150,245
Repairs and maintenance		255,553	-	255,553	67,856	-	67,856	323,409
Insurance		68,194	-	68,194	17,049	-	17,049	85,243
Utilities		188,487	-	188,487	55,671	-	55,671	244,158
Supplies / materials		121,902	-	121,902	50,113	-	50,113	172,015
Equipment / furnishings		5,973	-	5,973	886	-	886	6,859
Staff development		59,033	14,955	73,988	3,300	-	3,300	77,288
Marketing / recruitment		15,348	(150)	15,198	-	-	-	15,198
Technology		75,285	-	75,285	27,668	-	27,668	102,953
Food service		111,558	-	111,558	-	-	-	111,558
Student services		120	-	120	-	-	-	120
Office expense		76,743	-	76,743	28,195	-	28,195	104,938
Depreciation		226,004	-	226,004	17,372	-	17,372	243,376
Other		33,899	-	33,899	21,870	-	21,870	55,769
		<u>\$ 9,491,170</u>	<u>\$ 1,121,191</u>	<u>\$ 10,612,361</u>	<u>\$ 2,379,225</u>	<u>\$ 88,874</u>	<u>\$ 2,468,099</u>	<u>\$ 13,080,460</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER – OUR WORLD NEIGHBORHOOD CHARTER SCHOOL 2

YEAR ENDED JUNE 30, 2021

	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Sub-total	Management and general	Fundraising	Sub-total	
Personnel services costs:								
Administrative staff personnel	7	\$ 259,689	\$ -	\$ 259,689	\$ 329,135	\$ 17,004	\$ 346,139	\$ 605,828
Instructional personnel	28	1,679,643	214,631	1,894,274	-	-	-	1,894,274
Total personnel services costs	35	1,939,332	214,631	2,153,963	329,135	17,004	346,139	2,500,102
Fringe benefits and payroll taxes		319,693	42,756	362,449	29,809	54	29,863	392,312
Retirement		77,456	7,043	84,499	7,929	-	7,929	92,428
Legal service		-	-	-	73	-	73	73
Accounting / audit services		-	-	-	9,660	-	9,660	9,660
Other purchased / professional / consulting services		113,126	-	113,126	50,065	-	50,065	163,191
Building and land rent / lease / facility finance interest		1,875,620	-	1,875,620	395,385	-	395,385	2,271,005
Repairs and maintenance		103,634	-	103,634	21,719	-	21,719	125,353
Insurance		33,404	-	33,404	8,027	-	8,027	41,431
Utilities		102,748	-	102,748	18,770	-	18,770	121,518
Supplies / materials		75,860	-	75,860	16,039	-	16,039	91,899
Equipment / furnishings		6,281	-	6,281	665	-	665	6,946
Staff development		35,045	6,480	41,525	-	-	-	41,525
Marketing / recruitment		69,706	2,500	72,206	-	-	-	72,206
Technology		12,734	-	12,734	2,652	-	2,652	15,386
Student services		(265)	-	(265)	-	-	-	(265)
Office expense		30,334	-	30,334	7,592	-	7,592	37,926
Depreciation		298,898	-	298,898	36,889	-	36,889	335,787
Other		499	-	499	936	-	936	1,435
		<u>\$ 5,094,105</u>	<u>\$ 273,410</u>	<u>\$ 5,367,515</u>	<u>\$ 935,345</u>	<u>\$ 17,058</u>	<u>\$ 952,403</u>	<u>\$ 6,319,918</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS
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
Our World Neighborhood Charter Schools

We have audited, 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, the financial statements of Our World Neighborhood Charter Schools, which comprise the statement of financial position as of June 30, 2021 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 25, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Our World Neighborhood Charter Schools' internal control over financial reporting (internal control) as a basis for designing 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 Our World Neighborhood Charter Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Our World Neighborhood Charter Schools' 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Our World Neighborhood Charter Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2021-001.

Our World Neighborhood Charter Schools' Response to Finding

Our World Neighborhood Charter Schools' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Our World Neighborhood Charter Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, Baw & Co. LLP

Rochester, New York
October 25, 2021

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2021

Finding 2021-001

Statement of condition

During our audit we noted the Charter Schools did not adhere to the terms of their charter agreement, resulting in a late deposit of \$50,000 into the Charter Schools' escrow account.

Criteria and effect of conditions

During our audit we noted the Charter Schools' charter agreement required the School to deposit \$75,000 into the escrow account by June 30, 2021. The Charter Schools had previously deposited \$25,000 to the escrow account. We noted the Charter School did not deposit the remaining \$50,000 into the escrow account until August 18, 2021.

Recommendation

We recommend the Charter School adhere to the terms of the charter agreement when funding the escrow accounts.

Management Response

During our normal business operations, Our World Neighborhood Charter Schools adhered to the terms of the charter agreement when funding the escrow accounts. As the Charter School operated during this pandemic era, the Charter School experienced minor delays in getting certain tasks executed on a timely manner. For a period, banks were closed and operated by appointment only. While the Charter School did not meet the deadline, the funds were duly deposited in August 2021.