

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, 2020

(With Comparative Totals for 2019)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
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, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Our World Neighborhood Charter Schools' June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020 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.

Emphasis of Matters

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

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 29, 2020

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(With Comparative Totals for 2019)

	<u>June 30,</u>	
<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 4,262,280	\$ 2,314,686
Grants and contracts receivable	346,006	469,916
Prepaid expenses	<u>295,950</u>	<u>149,211</u>
TOTAL CURRENT ASSETS	4,904,236	2,933,813
 <u>PROPERTY AND EQUIPMENT, net</u>	 1,414,510	 1,480,782
 <u>OTHER ASSETS</u>		
Cash in escrow	105,946	103,169
Security deposits	<u>522,599</u>	<u>501,386</u>
	<u>628,545</u>	<u>604,555</u>
TOTAL ASSETS	<u>\$ 6,947,291</u>	<u>\$ 5,019,150</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 78,037	\$ 417,549
Accrued payroll and benefits	1,489,206	1,280,937
Deferred revenue	19,842	130,053
Current portion of long term debt	<u>887,975</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	2,475,060	1,828,539
 <u>OTHER LIABILITIES</u>		
Deferred lease liability	1,866,998	980,435
Long term debt	<u>1,130,630</u>	<u>-</u>
	<u>2,997,628</u>	<u>980,435</u>
TOTAL LIABILITIES	5,472,688	2,808,974
 <u>NET ASSETS, without donor restrictions</u>	 <u>1,474,603</u>	 <u>2,210,176</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,947,291</u>	<u>\$ 5,019,150</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, 2020
 (With Comparative Totals for 2019)

	Without donor restrictions	
	Year ended June 30,	
	2020	2019
Revenue, gains and other support:		
Public school district		
Resident student enrollment	\$ 14,601,135	\$ 12,597,839
Students with disabilities	1,242,219	889,359
Grants and contracts		
State and local	243,845	642,716
Federal - Title and IDEA	334,343	317,103
Federal - other	-	196,293
NYC DOE rental assistance	887,580	455,091
Food service / child nutrition program	157,613	223,245
	TOTAL REVENUE, GAINS AND OTHER SUPPORT	17,466,735
	17,466,735	15,321,646
Expenses:		
Program services:		
Regular education	13,533,441	12,282,742
Special education	1,480,611	1,382,952
Total program services	15,014,052	13,665,694
Management and general	3,223,083	2,904,844
Fundraising	111,640	110,257
	TOTAL OPERATING EXPENSES	18,348,775
	18,348,775	16,680,795
	DEFICIT FROM SCHOOL OPERATIONS	(882,040)
	(882,040)	(1,359,149)
Support and other revenue:		
Contributions		
Foundations	110,211	194,947
Individuals	10,207	9,918
Fundraising	4,584	6,274
Interest income	6,715	2,634
Miscellaneous income	14,750	31,999
	TOTAL SUPPORT AND OTHER REVENUE	146,467
	146,467	245,772
	CHANGE IN NET ASSETS	(735,573)
	(735,573)	(1,113,377)
Net assets at beginning of year	2,210,176	3,323,553
	NET ASSETS AT END OF YEAR	\$ 2,210,176
	\$ 1,474,603	\$ 2,210,176

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

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES

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

	No. of Positions	Year ended June 30,						Total	Total
		2020			2019				
		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	30	\$ 1,152,802	\$ 114,110	\$ 1,266,912	\$ 1,229,485	\$ 87,952	\$ 1,317,437	\$ 2,584,349	\$ 2,398,198
Instructional personnel	98	5,749,910	1,065,835	6,815,745	-	-	-	6,815,745	5,875,089
Non-instructional personnel	2	94,521	-	94,521	52,509	-	52,509	147,030	128,345
Total personnel services costs	130	6,997,233	1,179,945	8,177,178	1,281,994	87,952	1,369,946	9,547,124	8,401,632
Fringe benefits and payroll taxes		1,555,103	208,539	1,763,642	297,234	16,548	313,782	2,077,424	1,824,168
Retirement		310,966	52,137	363,103	75,272	5,084	80,356	443,459	354,144
Legal service		-	-	-	83,250	-	83,250	83,250	38,422
Accounting / audit services		-	-	-	62,187	-	62,187	62,187	46,313
Other purchased / professional / consulting services		204,686	-	204,686	403,000	-	403,000	607,686	758,165
Building and land rent / lease / facility finance interest		2,429,239	-	2,429,239	598,135	-	598,135	3,027,374	2,575,690
Repairs and maintenance		273,942	-	273,942	59,989	-	59,989	333,931	398,793
Insurance		82,276	-	82,276	20,569	-	20,569	102,845	93,890
Utilities		305,574	-	305,574	83,413	-	83,413	388,987	414,831
Supplies / materials		189,700	-	189,700	56,368	64	56,432	246,132	343,607
Equipment / furnishings		21,138	-	21,138	13,195	-	13,195	34,333	48,980
Staff development		128,522	16,240	144,762	23,477	-	23,477	168,239	141,016
Marketing / recruitment		95,767	23,750	119,517	-	-	-	119,517	197,950
Technology		96,932	-	96,932	61,717	-	61,717	158,649	141,283
Food service		269,836	-	269,836	-	90	90	269,926	415,930
Student services		10,028	-	10,028	-	-	-	10,028	21,887
Office expense		115,607	-	115,607	38,012	-	38,012	153,619	108,787
Depreciation		410,118	-	410,118	55,437	-	55,437	465,555	303,971
Other		36,774	-	36,774	9,834	1,902	11,736	48,510	51,336
		<u>\$ 13,533,441</u>	<u>\$ 1,480,611</u>	<u>\$ 15,014,052</u>	<u>\$ 3,223,083</u>	<u>\$ 111,640</u>	<u>\$ 3,334,723</u>	<u>\$ 18,348,775</u>	<u>\$ 16,680,795</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, 2020
(With Comparative Totals for 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (735,573)	\$ (1,113,377)
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	465,555	303,971
Bad debt expense	-	5,897
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	-	3,100
Grants and contracts receivable	123,910	139,505
Prepaid expenses and other current assets	(146,739)	(2,240)
Accounts payable and accrued expenses	(339,512)	100,612
Accrued payroll and benefits	208,269	527,238
Deferred revenue	(110,211)	(194,947)
Deferred lease liability	<u>886,563</u>	<u>955,692</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	352,262	725,451
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(399,283)	(939,371)
Security deposits	<u>(21,213)</u>	<u>(50,000)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(420,496)</u>	<u>(989,371)</u>
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Borrowings on long term debt	<u>2,018,605</u>	<u>-</u>
NET CASH PROVIDED FROM FINANCING ACTIVITIES	<u>2,018,605</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	1,950,371	(263,920)
Cash, cash equivalents, and restricted cash at beginning of year	<u>2,417,855</u>	<u>2,681,775</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR	<u>\$ 4,368,226</u>	<u>\$ 2,417,855</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF CASH FLOWS, Cont'd

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

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH 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	\$ 4,262,280	\$ 2,314,686
Cash in escrow	<u>105,946</u>	<u>103,169</u>
	<u>\$ 4,368,226</u>	<u>\$ 2,417,855</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, 2020
(With Comparative Totals for 2019)

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, 2020.

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, 2020 or 2019.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

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 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 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,		
	2020	2019	2018
Grants and contracts receivable	\$ 182,687	\$ -	\$ 260,405

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

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

Contributions

The Charter School recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Approximately \$20,000 and \$130,000 was deferred at June 30, 2020 and 2019, respectively, 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 \$20,800 and \$15,000 that have not been recognized at June 30, 2020 and 2019, 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 does 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 \$105,946 and \$103,169 at June 30, 2020 and 2019, respectively.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

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, 2020 or 2019.

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.

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 \$886,563 and \$955,692 for the years ended June 30, 2020 and 2019, respectively.

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, 2017 through June 30, 2020 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.

Marketing and costs

The Charter Schools expense marketing costs as they are incurred. Total marketing and recruiting costs approximated \$119,500 and \$198,000 for the years ended June 30, 2020 and 2019, respectively.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

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

Comparatives for year ended June 30, 2019

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, 2019, 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.

Adoption of new accounting standards

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Charter Schools adopted ASC 606 with the date of initial application of July 1, 2019.

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

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

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

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

Contributions received and contributions made

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

Statement of cash flows

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

New accounting pronouncement – leases

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

Subsequent events

The Charter Schools have conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 29, 2020, which is the date the financial statements are available to be issued. Except as described in Note D, no subsequent events requiring disclosure were noted.

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 2020 and 2019.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

NOTE B: LIQUIDITY AND AVAILABILITY, Cont'd

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

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,262,280	\$ 2,314,686
Grants and contracts receivable	<u>346,006</u>	<u>469,916</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 4,608,286</u>	<u>\$ 2,784,602</u>

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 4,242,268	\$ 4,242,268
Equipment and furniture and fixtures	<u>3,173,168</u>	<u>2,773,885</u>
	7,415,436	7,016,153
Less accumulated depreciation	<u>6,000,926</u>	<u>5,535,371</u>
	<u>\$ 1,414,510</u>	<u>\$ 1,480,782</u>

Total depreciation expense was \$465,555 and \$303,971 for the years ended June 30, 2020 and 2019, respectively.

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 \$2,992,100 and \$2,526,500 for the years ended June 30, 2020 and 2019. The lease for the OWN elementary school facility expired in September 2020. Negotiations are underway to renew the lease for an additional ten year term. No amounts have been included in the future maturities shown below relating to this lease.

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 \$143,800 and \$106,500 for the years ended June 30, 2020 and 2019.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

NOTE D: COMMITMENTS, Cont'd

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>
2021	\$ 2,130,400	\$ 107,200	\$ 2,237,600
2022	1,898,100	85,200	1,983,300
2023	2,143,800	2,700	2,146,500
2024	2,227,000	-	2,227,000
2025	2,140,900	-	2,140,900
Thereafter	56,193,200	-	56,193,200
	<u>\$ 66,733,400</u>	<u>\$ 195,100</u>	<u>\$ 66,928,500</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 discretionary profit sharing contribution up to 3% of eligible compensation per year. During the years ended June 30, 2020 and 2019, the Charter School contributed approximately \$443,500 and \$354,100, respectively, to the Plan.

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 has a maturity of 2 years and an interest rate of 0.98%. The loan has the potential for forgiveness provided certain requirements are met by the Charter Schools. The loan was funded on April 25, 2020.

Future maturities of long-term debt are summarized as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	887,975
2022	1,130,630
	<u>\$ 2,018,605</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

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, 2020, approximately 89% of grants and other receivables 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 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, 2019, approximately 41% of grants and other receivables are due from New York State Department of Education relating to certain grants. During the year ended June 30, 2019, 92% 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.

NOTE J: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30,	
	2020	2019
Undesignated	\$ 60,093	\$ 729,394
Invested in property and equipment	1,414,510	1,480,782
	<u>\$ 1,474,603</u>	<u>\$ 2,210,176</u>

There were no net assets with donor restrictions at June 30, 2020 and 2019.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

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

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 Schools’ 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 Schools are not able to estimate the effects of the COVID-19 outbreak on their results of operations, financial condition, or liquidity for fiscal year 2021.

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, 2020, and have issued our report thereon dated October 29, 2020, 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 29, 2020

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2020

	<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	\$ 11,639,951	\$ 2,961,184	\$ -	\$ 14,601,135
Students with disabilities	996,892	245,327	-	1,242,219
Grants and contracts				
State and local	188,338	55,507	-	243,845
Federal - Title and IDEA	266,385	67,958	-	334,343
NYC DOE rental assistance	-	887,580	-	887,580
Food service / child nutrition program	<u>157,613</u>	<u>-</u>	<u>-</u>	<u>157,613</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	13,249,179	4,217,556	-	17,466,735
Expenses:				
Program services:				
Regular education	9,450,065	4,083,376	-	13,533,441
Special education	<u>1,250,788</u>	<u>229,823</u>	<u>-</u>	<u>1,480,611</u>
Total program services	10,700,853	4,313,199	-	15,014,052
Management and general	2,324,470	898,613	-	3,223,083
Fundraising	<u>94,620</u>	<u>17,020</u>	<u>-</u>	<u>111,640</u>
TOTAL OPERATING EXPENSES	<u>13,119,943</u>	<u>5,228,832</u>	<u>-</u>	<u>18,348,775</u>
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	129,236	(1,011,276)	-	(882,040)
Support and other revenue:				
Contributions				
Foundations	-	110,211	-	110,211
Individuals	10,207	-	-	10,207
Fundraising	4,584	-	-	4,584
Interest income	5,431	1,284	-	6,715
Miscellaneous income	<u>10,530</u>	<u>4,220</u>	<u>-</u>	<u>14,750</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>30,752</u>	<u>115,715</u>	<u>-</u>	<u>146,467</u>
CHANGE IN NET ASSETS	159,988	(895,561)	-	(735,573)
Net assets (deficiency) at beginning of year	<u>3,257,148</u>	<u>(1,046,972)</u>	<u>-</u>	<u>2,210,176</u>
NET ASSETS (DEFICIENCY) AT END OF YEAR	<u>\$ 3,417,136</u>	<u>\$ (1,942,533)</u>	<u>\$ -</u>	<u>\$ 1,474,603</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

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

YEAR ENDED JUNE 30, 2020

	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	24	\$ 965,889	\$ 114,110	\$ 1,079,999	\$ 939,213	\$ 70,952	\$ 1,010,165	\$ 2,090,164
Instructional personnel	76	4,501,412	896,975	5,398,387	-	-	-	5,398,387
Non-instructional personnel	2	94,521	-	94,521	52,509	-	52,509	147,030
Total personnel services costs	102	5,561,822	1,011,085	6,572,907	991,722	70,952	1,062,674	7,635,581
Fringe benefits and payroll taxes		1,230,332	178,823	1,409,155	269,226	16,528	285,754	1,694,909
Retirement		261,027	47,970	308,997	68,822	5,084	73,906	382,903
Legal service		-	-	-	83,250	-	83,250	83,250
Accounting / audit services		-	-	-	50,987	-	50,987	50,987
Other purchased / professional / consulting services		146,124	-	146,124	352,288	-	352,288	498,412
Building and land rent / lease / facility finance interest		894,813	-	894,813	214,053	-	214,053	1,108,866
Repairs and maintenance		201,343	-	201,343	47,166	-	47,166	248,509
Insurance		65,821	-	65,821	16,455	-	16,455	82,276
Utilities		211,303	-	211,303	60,690	-	60,690	271,993
Supplies / materials		112,784	-	112,784	41,204	64	41,268	154,052
Equipment / furnishings		11,291	-	11,291	12,430	-	12,430	23,721
Staff development		89,151	12,760	101,911	18,529	-	18,529	120,440
Marketing / recruitment		45,585	150	45,735	-	-	-	45,735
Technology		76,401	-	76,401	53,455	-	53,455	129,856
Food service		269,836	-	269,836	-	90	90	269,926
Student services		5,172	-	5,172	-	-	-	5,172
Office expense		84,622	-	84,622	27,072	-	27,072	111,694
Depreciation		148,819	-	148,819	8,863	-	8,863	157,682
Other		33,819	-	33,819	8,258	1,902	10,160	43,979
		<u>\$ 9,450,065</u>	<u>\$ 1,250,788</u>	<u>\$ 10,700,853</u>	<u>\$ 2,324,470</u>	<u>\$ 94,620</u>	<u>\$ 2,419,090</u>	<u>\$ 13,119,943</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

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

YEAR ENDED JUNE 30, 2020

	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	6	\$ 186,913	\$ -	\$ 186,913	\$ 290,272	\$ 17,000	\$ 307,272	\$ 494,185
Instructional personnel	22	1,248,498	168,860	1,417,358	-	-	-	1,417,358
Total personnel services costs	28	1,435,411	168,860	1,604,271	290,272	17,000	307,272	1,911,543
Fringe benefits and payroll taxes		324,771	29,716	354,487	28,008	20	28,028	382,515
Retirement		49,939	4,167	54,106	6,450	-	6,450	60,556
Accounting / audit services		-	-	-	11,200	-	11,200	11,200
Other purchased / professional / consulting services		58,562	-	58,562	50,712	-	50,712	109,274
Building and land rent / lease / facility finance interest		1,534,426	-	1,534,426	384,082	-	384,082	1,918,508
Repairs and maintenance		72,599	-	72,599	12,823	-	12,823	85,422
Insurance		16,455	-	16,455	4,114	-	4,114	20,569
Utilities		94,271	-	94,271	22,723	-	22,723	116,994
Supplies / materials		76,916	-	76,916	15,164	-	15,164	92,080
Equipment / furnishings		9,847	-	9,847	765	-	765	10,612
Staff development		39,371	3,480	42,851	4,948	-	4,948	47,799
Marketing / recruitment		50,182	23,600	73,782	-	-	-	73,782
Technology		20,531	-	20,531	8,262	-	8,262	28,793
Student services		4,856	-	4,856	-	-	-	4,856
Office expense		30,985	-	30,985	10,940	-	10,940	41,925
Depreciation		261,299	-	261,299	46,574	-	46,574	307,873
Other		2,955	-	2,955	1,576	-	1,576	4,531
		<u>\$ 4,083,376</u>	<u>\$ 229,823</u>	<u>\$ 4,313,199</u>	<u>\$ 898,613</u>	<u>\$ 17,020</u>	<u>\$ 915,633</u>	<u>\$ 5,228,832</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, 2020 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2020.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 29, 2020