

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NEW YORK, NEW YORK

AUDITED FINANCIAL STATEMENTS

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

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	10
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
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 <i>Government Auditing Standards</i>	21

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harbor Science and Arts Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Science and Arts Charter School, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Science and Arts Charter School 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 Harbor Science and Arts Charter School's June 30, 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 28, 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 28, 2021 on our consideration of Harbor Science and Arts Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harbor Science and Arts Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 28, 2021

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

(With Comparative Totals For 2020)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 1,195,432	\$ 743,666
Grants and other receivables	198,088	166,286
Prepaid expenses	<u>76,625</u>	<u>87,231</u>
TOTAL CURRENT ASSETS	1,470,145	997,183
 <u>PROPERTY AND EQUIPMENT</u>		
Furniture and fixtures	72,881	72,881
Computers and software	201,681	167,347
Leasehold improvements	<u>353,769</u>	<u>353,769</u>
	628,331	593,997
Less accumulated depreciation and amortization	<u>365,724</u>	<u>316,541</u>
	262,607	277,456
 <u>OTHER ASSETS</u>		
Cash in escrow	75,000	75,000
Security deposit	<u>30,000</u>	<u>30,000</u>
	105,000	105,000
TOTAL ASSETS	<u>\$ 1,837,752</u>	<u>\$ 1,379,639</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 96,219	\$ 55,911
Accrued payroll and benefits	285,934	169,996
Current portion of notes payable	<u>848</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	383,001	225,907
 <u>NON-CURRENT LIABILITIES</u>		
Deferred lease liability	104,601	119,536
Notes payable	<u>696,382</u>	<u>537,906</u>
OTHER LIABILITIES	<u>800,983</u>	<u>657,442</u>
TOTAL LIABILITIES	1,183,984	883,349
 <u>NET ASSETS</u>		
Without donor restrictions	653,768	471,290
With donor restrictions	<u>-</u>	<u>25,000</u>
	653,768	496,290
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,837,752</u>	<u>\$ 1,379,639</u>

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

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

	Year ended June 30,			2020
	2021		Total	
	Without donor restrictions	With donor restrictions		
Revenue, gains, and other support:				
Public school district				
Resident student enrollment	\$ 3,503,528	\$ -	\$ 3,503,528	\$ 3,762,767
Students with disabilities	523,672	-	523,672	302,841
Grants and contracts				
State and local	20,492	-	20,492	19,990
Federal - Title and IDEA	141,355	-	141,355	153,320
Federal - Other	87,442	-	87,442	12,516
Food service/Child nutrition program	24,798	-	24,798	104,282
TOTAL REVENUE, GAINS AND OTHER SUPPORT	4,301,287	-	4,301,287	4,355,716
Expenses:				
Program services:				
Regular education	2,133,241	-	2,133,241	2,702,335
Special education	1,479,123	-	1,479,123	987,437
TOTAL PROGRAM SERVICES	3,612,364	-	3,612,364	3,689,772
Management and general	542,886	-	542,886	474,804
TOTAL OPERATING EXPENSES	4,155,250	-	4,155,250	4,164,576
SURPLUS FROM SCHOOL OPERATIONS	146,037	-	146,037	191,140
Support and other revenue:				
Contributions:				
Other	9,199	-	9,199	61,491
Fundraising	2,242	-	2,242	13,866
Net assets released from restriction	25,000	(25,000)	-	-
TOTAL SUPPORT AND OTHER REVENUE	36,441	(25,000)	11,441	75,357
CHANGE IN NET ASSETS	182,478	(25,000)	157,478	266,497
Net assets at beginning of year	471,290	25,000	496,290	229,793
NET ASSETS AT END OF YEAR	\$ 653,768	\$ -	\$ 653,768	\$ 496,290

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

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

	No. of positions June 30, 2021	Year ended June 30,					Total	Total
		2021			2020			
		Regular Education	Special Education	Sub-total	Supporting Services Management and general	Total		
Salaries and staff:								
Administrative staff personnel	4	\$ 389,663	\$ 143,405	\$ 533,068	\$ 288,588	\$ 821,656	\$ 836,081	
Instructional personnel	28	872,767	778,537	1,651,304	-	1,651,304	1,465,431	
Non-instructional personnel	4	107,508	41,719	149,227	5,680	154,907	216,408	
TOTAL SALARIES AND STAFF	36	1,369,938	963,661	2,333,599	294,268	2,627,867	2,517,920	
Fringe benefits & payroll taxes		297,990	213,406	511,396	66,591	577,987	564,459	
Retirement		1,198	858	2,056	268	2,324	-	
Legal Services				-	21,220	21,220	-	
Accounting / audit services		-	-	-	23,750	23,750	44,330	
Other purchased / professional / consulting services		27,736	10,764	38,500	10,731	49,231	70,289	
Building and land rent / lease / facility finance interest		210,465	150,725	361,190	47,032	408,222	408,616	
Repairs and maintenance		30,712	21,994	52,706	6,863	59,569	60,480	
Insurance		19,732	14,132	33,864	4,410	38,274	44,883	
Utilities		22,681	16,243	38,924	5,068	43,992	44,517	
Supplies / materials		41,286	16,021	57,307	-	57,307	83,425	
Equipment rental		17,498	12,532	30,030	3,910	33,940	30,549	
Staff development		3,728	2,343	6,071	6,675	12,746	12,414	
Marketing / recruitment		2,401	1,719	4,120	537	4,657	18,870	
Technology		23,481	16,815	40,296	5,249	45,545	36,497	
Food service		22,833	8,860	31,693	-	31,693	132,426	
Student services		2,174	843	3,017	-	3,017	17,401	
Office expense		6,768	4,847	11,615	1,512	13,127	16,747	
Depreciation and amortization		29,008	20,774	49,782	6,482	56,264	48,557	
Other		3,612	2,586	6,198	38,320	44,518	12,196	
		<u>\$ 2,133,241</u>	<u>\$ 1,479,123</u>	<u>\$ 3,612,364</u>	<u>\$ 542,886</u>	<u>\$ 4,155,250</u>	<u>\$ 4,164,576</u>	

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

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	\$ 157,478	\$ 266,497
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	56,264	48,557
Interest expense included in notes payable	9,324	-
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(31,802)	(21,924)
Prepaid expenses	10,606	(8,968)
Accounts payable	40,308	(14,864)
Accrued payroll and benefits	115,938	(155,060)
Deferred lease liability	<u>(14,935)</u>	<u>(14,780)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	343,181	99,458
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	<u>(41,415)</u>	<u>(27,523)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(41,415)</u>	<u>(27,523)</u>
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Borrowings on notes payable	<u>150,000</u>	<u>537,906</u>
NET CASH PROVIDED FROM FINANCING ACTIVITIES	<u>150,000</u>	<u>537,906</u>
NET INCREASE IN CASH AND RESTRICTED CASH	451,766	609,841
Cash and restricted cash at beginning of year	<u>818,666</u>	<u>208,825</u>
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 1,270,432</u>	<u>\$ 818,666</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

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 FLOW INFORMATION</u>		
Reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash	\$ 1,195,432	\$ 743,666
Cash in escrow	75,000	75,000
	<u>\$ 1,270,432</u>	<u>\$ 818,666</u>
 <u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Accrued interest included in notes payable	<u>\$ 9,324</u>	<u>\$ -</u>

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

(With Comparative Totals For 2020)

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

The Charter School

Harbor Science and Arts Charter School (the “Charter School”), is an education corporation operating as a charter school in New York, New York. The Charter school opened in 2000 with a charter granted by the Board of Regents of the University of the State of New York. On May 25, 2017, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years through July 31, 2022 and renewable upon expiration.

The Charter School’s mission is to provide students with a high-quality education through a rigorous academic program that infuses character building, physical wellness and the arts. Students will graduate with the skills and knowledge necessary to succeed in higher learning institutions and have the capability to make a positive contribution to society.

Classification of net assets

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

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

Net Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter School did not have net assets with donor restrictions at June 30, 2021. The Charter School had net assets with donor restrictions of \$25,000 at June 30, 2020.

Revenue recognition

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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

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

Public school district revenue

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

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

	June 30,		
	2021	2020	2019
Grants and other receivables	\$ 49,459	\$ 69,483	\$ -

Contributions

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

Contributions 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.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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

Grant revenue

Some of the Charter School's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Charter School has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position. There were no amounts received prior to incurring qualifying expenditures, which would be reported as deferred revenue in the accompanying statement of financial position at June 30, 2021 and 2020, respectively. The Charter School received cost-reimbursement grants of approximately \$15,100 and \$14,800 that have not been recognized at June 30, 2021 and 2020, respectively, because qualifying expenditures have not yet been incurred.

Cash

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

Cash in escrow

The Charter School maintains cash in an escrow account, pursuant to its Charter Agreement, to pay off expenses in the event of dissolution of the Charter School. The amount in escrow was \$75,000 at June 30, 2021 and 2020.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There were no allowance for doubtful accounts at June 30, 2021 and June 30, 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 range from three to fifteen years. Leasehold improvements are being amortized over the term of the lease.

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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

Deferred lease liability

The Charter School leases its facility. The lease contains pre-determined fixed escalations of the base rent. In accordance with GAAP, the Charter School recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts paid under the lease as a deferred lease liability.

Tax exempt status

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

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2018 through June 30, 2021 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed services

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

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions received during the years ended June 30, 2021 and 2020.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$4,700 and \$18,900 for the years ended June 30, 2021 and 2020, respectively.

Use of estimates in the preparation of financial statements

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

Comparatives for year ended 2020

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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

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 School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School’s financial position or results of operations.

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 School is currently evaluating the provisions of this update to determine the impact it will have on the Charter School’s financial statements.

Reclassifications

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

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 28, 2021, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

NOTE B: LIQUIDITY AND AVAILABILITY

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

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

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

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Cash	\$ 1,195,432	\$ 743,666
Grants and other receivables	<u>198,088</u>	<u>166,286</u>
Total financial assets available within one year	1,393,520	909,952
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	<u>-</u>	<u>(25,000)</u>
Total amounts unavailable for general expenditures within one year	<u>-</u>	<u>(25,000)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 1,393,520</u>	<u>\$ 884,952</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30</u>	
	<u>2021</u>	<u>2020</u>
Undesignated net assets	\$ 391,161	\$ 193,834
Invested in property and equipment	<u>262,607</u>	<u>277,456</u>
	<u>\$ 653,768</u>	<u>\$ 471,290</u>

Net assets with donor restrictions consist of the following:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Technology	\$ -	\$ 25,000

NOTE D: SCHOOL FACILITY

Effective July 1, 2013, the Charter School entered into a fifteen-year lease for its facilities through June 30, 2028. The Charter School's base rent for the year ended June 30, 2021 was \$408,160. The base rent will increase in accordance with the lease agreement. Rent expense totaled \$393,220 for both the years ended June 30, 2021 and 2020.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 408,163
2023	408,163
2024	408,163
2025	408,163
2026	408,163
Thereafter	<u>816,327</u>
	<u>\$ 2,857,142</u>

In conjunction with this facility lease, the Charter School paid a security deposit of \$30,000, which is included on the accompanying statement of financial position at June 30, 2021 and 2020.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

NOTE E: OPERATING LEASE

The Charter School leased office equipment under a non-cancelable lease agreements expiring at various dates through March 2025. Lease expense was approximately \$29,000 and \$28,000 for the years ended June 30, 2021 and 2020, respectively. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 19,569
2023	804
2024	804
2025	536
Total	<u>\$ 21,713</u>

NOTE F: RETIREMENT PLAN

The Charter School sponsors a 403(b) retirement plan covering all regular employees. The Plan allows for the Charter School to make a discretionary employee matching contribution.

The Charter School did not make any contributions for the years ended June 30, 2021 and 2020.

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 and 2020, approximately 98% and 95%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2021 and 2020, 93% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 2020)

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. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort.

NOTE J: NOTES PAYABLE

In response to the COVID-19 outbreak, in April 2020, the Charter School applied for and was approved by a bank for a loan of \$537,906 through the Paycheck Protection Program (PPP) established by the Small Business Administration. The loan has a maturity of 2 years and an interest rate of 1%. The loan has the potential for forgiveness provided certain requirements are met by the Charter School. The loan was funded in May 2020. Accrued interest at June 30, 2021 for the PPP loan is \$5,580, for a total amount due of \$543,757 at June 30, 2021. Due to the potential for forgiveness, the entire balance, including accrued interest, is presented as long-term on the accompanying statement of financial position at June 30, 2021 and 2020.

On August 29, 2020, the Charter School received a \$150,000 Economic Injury Disaster Loan (EIDL) through the Small Business Administration (SBA). The loan requires monthly payments of \$641, including principal and interest, beginning twelve months from the date of the loan through the loan's maturity date which is thirty years from the date of the loan. On March 16, 2021, the SBA announced payments will not be required prior to March 31, 2022, making the Charter School's first payment due April 2022. Interest will accrue at a rate of 2.75% per annum, including through the extended deferment period. The Charter School has not made any payments on the loan as of June 30, 2021. Accrued interest as of June 30, 2021 for the EIDL is \$3,473, for a total amount due of \$153,473 at June 30, 2021.

Estimated annual maturities of the EIDL note payable are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 848
2023	3,450
2024	3,546
2025	3,645
2026	3,747
Thereafter	138,237
	<u>\$ 153,473</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2021

(With Comparative Totals For 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 \$75,600 of revenue relative to ESSER grants during the year ended June 30, 2021.

NOTE L: RENEWAL PROCESS

The Charter School is currently in the process of renewing its charter as granted by the New York State Board of Regents. The Charter currently expires July 31, 2022. The renewal process includes review by the Board of Regents of the University of the State of New York Charter Schools Institute (“CSI”) of various operational and governance aspects, including fiscal health and internal controls, board governance and academic performance. The Charter School has submitted its application for renewal. Upon review of the application and results, CSI will determine if the charter should be renewed and if so, for how long. Successful charter renewals can range from one to five years. At this time management of the Charter School expect the charter to be renewed.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Trustees
Harbor Science and Arts Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harbor Science and Arts Charter School, 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 28, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 28, 2021