

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, 2024

(With Comparative Totals For 2023)



BUSINESS
ADVISORS
AND CPAS

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BUSINESS
ADVISORS
AND CPAS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harbor Science and Arts Charter School

Opinion

We have audited the financial statements of Harbor Science and Arts Charter School, which comprise the statement of financial position as of June 30, 2024 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Harbor Science and Arts Charter School as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Harbor Science and Arts Charter School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harbor Science and Arts Charter School's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Harbor Science and Arts Charter School's June 30, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 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, 2024 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 solely 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 effectiveness of 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 Harbor Science and Arts Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 28, 2024

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2024

(With Comparative Totals For 2023)

<u>ASSETS</u>	June 30,	
	2024	2023
<u>CURRENT ASSETS</u>		
Cash	\$ 531,703	\$ 197,562
Grants and other receivables	388,876	647,398
Prepaid expenses	31,248	76,524
TOTAL CURRENT ASSETS	951,827	921,484
<u>PROPERTY AND EQUIPMENT</u>		
Furniture and fixtures	76,898	76,898
Computers and software	338,432	283,500
Leasehold improvements	387,416	381,916
	802,746	742,314
Less accumulated depreciation and amortization	557,565	483,114
	245,181	259,200
<u>OTHER ASSETS</u>		
Cash in escrow	75,002	75,002
Right-of-use assets - finance	124,348	-
Right-of-use assets - operating	1,592,512	2,024,578
Security deposit	30,000	30,000
	1,821,862	2,129,580
TOTAL ASSETS	\$ 3,018,870	\$ 3,310,264
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 107,093	\$ 288,056
Accrued payroll and benefits	400,177	337,007
Current portion of note payable	3,439	3,346
Current portion of lease liabilities - finance	24,520	-
Current portion of lease liabilities - operating	390,718	389,962
TOTAL CURRENT LIABILITIES	925,947	1,018,371
<u>OTHER LIABILITIES</u>		
Note payable	151,501	157,504
Long-term lease liabilities - finance	101,014	-
Long-term lease liabilities - operating	1,296,452	1,731,277
OTHER LIABILITIES	1,548,967	1,888,781
TOTAL LIABILITIES	2,474,914	2,907,152
<u>NET ASSETS</u> - Without donor restrictions	543,956	403,112
TOTAL LIABILITIES AND NET ASSETS	\$ 3,018,870	\$ 3,310,264

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, 2024
(With Comparative Totals For 2023)

	Year ended June 30,	
	2024	2023
Revenue, gains, and other support:		
Public school district		
Resident student enrollment	\$ 3,867,539	\$ 3,088,622
Students with disabilities	816,761	720,866
Grants and contracts		
State and local	4,479	4,986
State contributions of nonfinancial assets	14,123	15,341
Federal - Title and IDEA	149,571	154,460
Federal - Other	311,906	242,704
Food service/Child nutrition program	193,812	154,692
TOTAL REVENUE, GAINS AND OTHER SUPPORT	5,358,191	4,381,671
Expenses:		
Program services:		
Regular education	3,419,249	2,566,158
Special education	1,412,026	1,551,910
TOTAL PROGRAM SERVICES	4,831,275	4,118,068
Management and general	460,160	775,500
TOTAL OPERATING EXPENSES	5,291,435	4,893,568
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	66,756	(511,897)
Support and other revenue:		
Contributions:		
Other	74,088	3,426
Fundraising	-	79
TOTAL SUPPORT AND OTHER REVENUE	74,088	3,505
CHANGE IN NET ASSETS	140,844	(508,392)
Net assets at beginning of year	403,112	911,504
NET ASSETS AT END OF YEAR	\$ 543,956	\$ 403,112

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, 2024
 (With Comparative Totals For 2023)

	No. of positions June 30, 2024	Year ended June 30,					Total	Total
		2024			2023			
		Regular Education	Special Education	Sub-total	Supporting Services Management and general	Total		
Salaries and staff:								
Administrative staff personnel	8	\$ 313,904	\$ 107,874	\$ 421,778	\$ 189,375	\$ 611,153	\$ 687,058	
Instructional personnel	27	1,673,307	690,547	2,363,854	-	2,363,854	1,861,547	
Non-instructional personnel	5	178,988	62,286	241,274	7,239	248,513	276,275	
TOTAL SALARIES AND STAFF	40	2,166,199	860,707	3,026,906	196,614	3,223,520	2,824,880	
Fringe benefits & payroll taxes		407,181	163,260	570,441	39,665	610,106	620,329	
Retirement		1,636	657	2,293	159	2,452	1,418	
Legal Services		-	-	-	-	-	570	
Accounting / audit services		-	-	-	129,343	129,343	223,523	
Other purchased / professional / consulting services		36,066	74,351	110,417	20,089	130,506	111,941	
Building and land rent / lease / facility finance interest		294,082	117,912	411,994	28,648	440,642	436,822	
Repairs and maintenance		38,782	15,550	54,332	3,778	58,110	42,459	
Insurance		32,645	13,089	45,734	3,180	48,914	47,449	
Utilities		35,117	14,080	49,197	3,421	52,618	74,747	
Supplies / materials		61,878	21,533	83,411	-	83,411	99,921	
Equipment and furnishings		17,090	6,852	23,942	1,665	25,607	39,293	
Staff development		7,730	3,099	10,829	2,232	13,061	18,759	
Marketing / recruitment		38,517	15,444	53,961	3,752	57,713	20,526	
Technology		35,877	14,385	50,262	3,495	53,757	31,499	
Food service		109,780	38,203	147,983	-	147,983	153,715	
Student services		39,236	13,838	53,074	338	53,412	7,037	
Office expense		17,349	6,956	24,305	1,690	25,995	38,736	
Depreciation and amortization		58,424	23,425	81,849	5,691	87,540	65,292	
Other		21,660	8,685	30,345	16,400	46,745	34,652	
		<u>\$ 3,419,249</u>	<u>\$ 1,412,026</u>	<u>\$ 4,831,275</u>	<u>\$ 460,160</u>	<u>\$ 5,291,435</u>	<u>\$ 4,893,568</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, 2024
(With Comparative Totals For 2023)

	<u>Year ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 140,844	\$ (508,392)
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation and amortization	87,540	65,292
Interest expense included in note payable	-	3,649
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	258,522	(53,783)
Prepaid expenses	45,276	62,589
Accounts payable	(180,963)	192,072
Accrued payroll and benefits	63,170	(37,986)
Deferred lease liability	-	(89,658)
Operating lease liabilities, net of right of use assets	(2,003)	96,661
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	412,386	(269,556)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(60,432)	(33,545)
NET CASH USED FOR INVESTING ACTIVITIES	(60,432)	(33,545)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments of finance lease	(11,903)	-
Repayments of note payable	(5,910)	(546)
NET CASH USED FOR FINANCING ACTIVITIES	(17,813)	(546)
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	334,141	(303,647)
Cash and restricted cash at beginning of year	272,564	576,211
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 606,705</u>	<u>\$ 272,564</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2024
(With Comparative Totals For 2023)

	<u>Year ended June 30,</u>	
	<u>2024</u>	<u>2023</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	\$ 531,703	\$ 197,562
Cash in escrow	<u>75,002</u>	<u>75,002</u>
	<u>\$ 606,705</u>	<u>\$ 272,564</u>
Cash paid during the year for interest	<u>\$ 6,903</u>	<u>\$ -</u>
 <u>NON-CASH OPERATING, INVESTING AND FINANCING ACTIVITIES</u>		
Interest expense included in notes payable	<u>\$ -</u>	<u>\$ 3,649</u>
Right-of-use assets obtained in exchange for finance lease liabilities	<u>\$ 135,028</u>	<u>\$ -</u>
Contributions of nonfinancial assets	<u>\$ 14,123</u>	<u>\$ 15,341</u>

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024

(With Comparative Totals For 2023)

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 March 17, 2022, the Board of Regents of the University of the State of New York granted the Charter School a full-term charter, subject to certain conditions, valid for a term of five years through July 31, 2027 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.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

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. As of June 30, 2024 and 2023, the Charter School had no board designated funds.

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, 2024 and 2023.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals For 2023)

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

Revenue recognition

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

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

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 date:

	<u>June 30,</u>		
	<u>2024</u>	<u>2023</u>	<u>2022</u>
Grants and other receivables	\$ 16,946	\$ -	\$ 19,387

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, 2024

(With Comparative Totals For 2023)

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, 2024 and 2023. At June 30, 2024, the Charter School has no cost-reimbursement grants available to it and not yet recognized 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 approximately \$75,000 at June 30, 2024 and 2023.

Grants and other receivables

At each fiscal year end, the Charter School evaluates the need for an expected allowance for credit losses for all outstanding balances that fall under ASU 2014-09. As necessary, the allowance for credit losses is updated at fiscal year-end to reflect any changes in credit risk since the receivable was initially recorded. The allowance for credit losses is calculated on a pooled basis where similar risk characteristics exist.

The Charter School uses historical loss data as a starting point to estimate expected credit losses, given consistent revenue sources since its inception. There were no write-offs of amounts that fall under ASU 2014-09 for the years ended June 30, 2024 and 2023.

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 five 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, 2024

(With Comparative Totals For 2023)

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

Tax exempt status

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

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The Charter School's current and prior three years' tax returns remain subject to potential review by taxing authorities. Management of the Organization believes it has no material uncertain tax positions and, accordingly, 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.

Marketing and recruiting costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$57,700 and \$20,500 for the years ended June 30, 2024 and 2023, respectively.

Gifts-in-kind

During the years ended June 30, 2024 and 2023, the Charter School received contributed software and textbooks to be used for regular and special education at the Charter School. There are no donor restrictions associated with the contributed software and textbooks. The contributed software and textbooks were valued based on the fair market value of the software and textbooks at the time they were contributed. Gifts-in-kind amounted to \$14,123 and \$15,341 for the years ended June 30, 2024 and 2023.

<u>Program or Supporting Service</u>	<u>Year ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
Regular education	\$ 9,886	\$ 10,739
Special education	<u>4,237</u>	<u>4,602</u>
Total	<u>\$ 14,123</u>	<u>\$ 15,341</u>

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.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals For 2023)

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

Comparatives for year ended June 30, 2023

The financial statements include certain prior year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2023, from which the summarized information was derived.

Leases

The Charter School leases a building and office equipment and determines if the arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, current liabilities, and other liabilities on the accompanying statement of financial position. Finance leases are included in finance lease right-of-use assets, current liabilities and other liabilities on the accompanying statement of financial position.

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

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

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

Adoption of new accounting pronouncement – current expected credit losses

In June 2016 the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through changes in net assets. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Charter School that are subject to the guidance in FASB ASC 326 were receivables.

The Charter School adopted this standard effective July 1, 2023. The impact of adoption was not considered material to the financial statements and primarily resulted in enhanced disclosures only.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals For 2023)

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

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, 2024, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

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 anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

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>2024</u>	<u>2023</u>
Cash	\$ 531,703	\$ 197,562
Grants and other receivables	<u>388,876</u>	<u>647,398</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 920,579</u>	<u>\$ 844,960</u>

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30</u>	
	<u>2024</u>	<u>2023</u>
Undesignated net assets	\$ 298,775	\$ 143,912
Invested in property and equipment	<u>245,181</u>	<u>259,200</u>
	<u>\$ 543,956</u>	<u>\$ 403,112</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals For 2023)

NOTE D: LEASES

Effective July 1, 2013, the Charter School entered into a fifteen-year lease for its facilities through June 30, 2028. The current monthly base rent is approximately \$35,000. The base rent will increase in accordance with the lease agreement. 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, 2024 and 2023. Rent paid for the facility lease for the years ended June 30, 2024 and 2023 was approximately \$425,000 and \$416,000, respectively.

The Charter School leased office equipment under an operating lease agreement which was terminated in November 2023. In December 2023, the Charter School entered into a finance lease agreement for office equipment through March 2029. Equipment lease expense was approximately \$22,000 for the years ended June 30, 2024 and 2023.

A summary of lease right-of-use assets and liabilities are as follows:

	<u>Statement of Financial Position Classification</u>	<u>June 30,</u>	
		<u>2024</u>	<u>2023</u>
<u>Assets</u>			
Finance leases	Other assets	\$ 124,348	\$ -
Operating leases	Other assets	1,592,512	2,024,578
	Total lease assets	<u>\$ 1,716,860</u>	<u>\$ 2,024,578</u>
<u>Liabilities</u>			
Current:			
Finance leases	Current liabilities	24,520	-
Operating leases	Current liabilities	390,718	389,962
Long-term:			
Finance leases	Other liabilities	101,014	-
Operating leases	Other liabilities	1,296,452	1,731,277
	Total lease liabilities	<u>\$ 1,812,704</u>	<u>\$ 2,121,239</u>

The components of lease expense were as follows:

	<u>Year ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
Finance lease costs:		
Amortization of ROU assets	\$ 13,089	\$ -
Interest on lease liabilities	2,556	-
	Total finance lease costs	-
Operating lease cost	429,382	442,976
	<u>\$ 445,027</u>	<u>\$ 442,976</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals For 2023)

NOTE D: LEASES, Cont'd

As of June 30, 2024, minimum payments due for lease liabilities for each of the five succeeding fiscal years are as follows:

<u>Year ending June 30,</u>	<u>Finance</u>	<u>Operating</u>	<u>Total</u>
2025	\$ 28,920	\$ 433,138	\$ 462,058
2026	28,920	441,801	470,721
2027	28,920	450,637	479,557
2028	28,920	459,650	488,570
2029	<u>21,690</u>	<u>-</u>	<u>21,690</u>
Total lease payments	137,370	1,785,226	1,922,596
Less: Interest	<u>(11,836)</u>	<u>(98,056)</u>	<u>(109,892)</u>
Present value of lease liabilities	<u>\$ 125,534</u>	<u>\$ 1,687,170</u>	<u>\$ 1,812,704</u>

Supplemental information is as follows:

	<u>Year ended June 30,</u>	
	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 2,146	\$ -
Financing cash flows from finance leases	\$ 9,904	\$ -
Operating cash flows from operating leases	\$ 398,377	\$ 437,219
Right-of-use assets obtained in exchange for new finance lease liabilities (non-cash):	\$ 135,028	\$ -
Weighted-average remaining lease term in years for finance leases:	4.75 years	n/a
Weighted-average remaining lease term in years for operating leases:	4.00 years	4.95 years
Weighted-average discount rate for finance leases:	3.93%	n/a
Weighted-average discount rate for operating leases:	2.88%	2.88%

NOTE E: 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 employer matching contribution.

The Charter School did not make any contributions for the years ended June 30, 2024 and 2023.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals For 2023)

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE G: CONCENTRATIONS

At June 30, 2024 and 2023, approximately 95% and 99%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2024 and 2023, approximately 87% 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. For the years ended June 30, 2024 and 2023, 12% and 13%, respectively, of total operating revenue and support came from the federal government.

NOTE H: 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 I: NOTE PAYABLE

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. Effective March 15, 2022 the SBA announced an additional six months of deferment for a total of 30 months from the date of the note. The Charter School's first payment came due in March 2023. Interest will accrue at a rate of 2.75% per annum, including through the extended deferment period. Accrued interest at June 30, 2024 and 2023 was \$11,596 and \$11,396, respectively, for a total amount due of \$154,940 and \$160,850 at June 30, 2024 and 2023, respectively.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2024

(With Comparative Totals For 2023)

NOTE I: NOTE PAYABLE, Cont'd

Future payments on the EIDL note payable, including accrued interest are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2025	\$ 7,692
2026	7,692
2027	7,692
2028	7,692
2029	7,692
Thereafter	<u>116,480</u>
	<u>\$ 154,940</u>

NOTE J: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

In response to the COVID-19 outbreak, the Federal Government passed several COVID relief acts which include funding for elementary and secondary education. The Elementary and Secondary School Emergency Relief Fund (ESSER Fund) was established to award grants to state and local educational agencies. The Charter School has recognized \$285,537 and \$230,565 of revenue relative to ESSER grants during the years ended June 30, 2024 and 2023, respectively. The Charter School has fully utilized allocated ESSER grants as of June 30, 2024.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



BUSINESS
ADVISORS
AND CPAS

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 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, 2024, 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, 2024.

Report on 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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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, 2024