

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2019



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants



October 2, 2019

The Finance Committee
Harbor Science and Arts Charter School

We have audited the financial statements of Harbor Science and Arts Charter School as of and for the year ended June 30, 2019, and have issued our report thereon dated October 2, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 3, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Harbor Science and Arts Charter School solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Harbor Science and Arts Charter School is included in Note A to the financial statements. As disclosed in Note A to the financial statements, during the year, the Charter School adopted Financial Accounting Standards Board Accounting Standards update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the allocation of costs for the statement of functional expenses and the collectability of grants receivable. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Harbor Science and Arts Charter School's financial statements relate to revenue and support recognition, which is referred to in the notes of the financial statements.

Identified or Suspected Fraud

We have not identified nor have we obtained information that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material either individually or in the aggregate, to the financial statements as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Harbor Science and Arts Charter School's financial statements or the auditor's report. We are pleased to report no such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Harbor Science and Arts Charter School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Harbor Science and Arts Charter School's auditors.

Internal Control Matters

We did not identify any deficiencies in internal control that we considered to be material weaknesses.

* * * * *

Should you desire further information concerning these matters, Michelle Cain or Kevin Kopp will be happy to meet with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees, Finance Committee and management of Harbor Science and Arts Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

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, 2019

(With Comparative Totals For 2018)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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, 2019, 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, 2019, 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, 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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 2, 2019 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, Barw & Co. LLP

Rochester, New York
October 2, 2019

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(With Comparative Totals For 2018)

<u>ASSETS</u>	June 30,	
	<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 133,825	\$ 9,353
Grants and other receivables	144,362	164,350
Prepaid expenses	<u>78,263</u>	<u>105,116</u>
TOTAL CURRENT ASSETS	356,450	278,819
 <u>PROPERTY AND EQUIPMENT</u>		
Furniture and fixtures	72,881	61,053
Computers and software	139,824	139,824
Leasehold improvements	<u>353,769</u>	<u>353,769</u>
	566,474	554,646
Less accumulated depreciation and amortization	<u>267,984</u>	<u>218,544</u>
	298,490	336,102
 <u>OTHER ASSETS</u>		
Cash in escrow	75,000	75,000
Security deposit	<u>30,000</u>	<u>30,000</u>
	<u>105,000</u>	<u>105,000</u>
 TOTAL ASSETS	<u>\$ 759,940</u>	<u>\$ 719,921</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 66,725	\$ 79,326
Accrued payroll and benefits	325,056	302,853
Deferred revenue	<u>4,050</u>	<u>1,559</u>
TOTAL CURRENT LIABILITIES	395,831	383,738
 <u>DEFERRED LEASE LIABILITY</u>	<u>134,316</u>	<u>141,096</u>
TOTAL LIABILITIES	530,147	524,834
 <u>NET ASSETS</u>		
Without donor restrictions	<u>229,793</u>	<u>195,087</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 759,940</u>	<u>\$ 719,921</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, 2019
(With Comparative Totals For 2018)

	<u>Year ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Revenue, gains, and other support:		
Public school district		
Resident student enrollment	\$ 3,987,362	\$ 3,668,962
Students with disabilities	198,156	113,251
Grants and contracts		
State and local	19,692	19,625
Federal - Title and IDEA	199,235	182,012
Federal - Other	4,925	2,909
Food service/Child nutrition program	<u>173,753</u>	<u>140,715</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	4,583,123	4,127,474
Expenses:		
Program services:		
Regular education	2,872,289	2,715,028
Special education	<u>1,088,656</u>	<u>972,686</u>
TOTAL PROGRAM SERVICES	3,960,945	3,687,714
Management and general	<u>596,964</u>	<u>617,627</u>
TOTAL OPERATING EXPENSES	<u>4,557,909</u>	<u>4,305,341</u>
SURPLUS / (DEFICIT) FROM SCHOOL OPERATIONS	25,214	(177,867)
Support and other revenue:		
Contributions:		
Other	6,984	13,568
Fundraising	<u>2,508</u>	<u>3,175</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>9,492</u>	<u>16,743</u>
CHANGE IN NET ASSETS	34,706	(161,124)
Net assets at beginning of year	<u>195,087</u>	<u>356,211</u>
NET ASSETS AT END OF YEAR	<u>\$ 229,793</u>	<u>\$ 195,087</u>

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, 2019
(With Comparative Totals For 2018)

	No. of positions June 30, 2019	Year ended June 30,					
		2019				2018	
		Program Services			Supporting Services	Total	Total
		Regular Education	Special Education	Sub-total	Management and general		
Salaries and staff:							
Administrative staff personnel	12	\$ 327,841	\$ 104,151	\$ 431,992	\$ 241,417	\$ 673,409	\$ 787,196
Instructional personnel	26	1,205,263	507,587	1,712,850	-	1,712,850	1,452,352
Non-instructional personnel	6	195,807	53,037	248,844	3,064	251,908	309,369
TOTAL SALARIES AND STAFF	44	1,728,911	664,775	2,393,686	244,481	2,638,167	2,548,917
Fringe benefits & payroll taxes		411,831	158,351	570,182	58,236	628,418	545,181
Accounting / audit services		-	-	-	156,000	156,000	153,900
Other purchased / professional / consulting services		29,152	9,351	38,503	58,435	96,938	98,190
Building and land rent / lease / facility finance interest		269,221	103,517	372,738	38,070	410,808	410,386
Repairs and maintenance		33,159	12,750	45,909	4,689	50,598	47,512
Insurance		29,514	11,349	40,863	4,174	45,037	42,506
Utilities		24,914	9,580	34,494	3,523	38,017	41,009
Supplies / materials		52,862	16,955	69,817	-	69,817	43,574
Equipment rental		28,995	11,148	40,143	4,100	44,243	33,676
Staff development		7,299	2,763	10,062	3,489	13,551	10,189
Marketing / recruitment		5,489	2,110	7,599	776	8,375	4,841
Technology		25,099	9,651	34,750	3,549	38,299	28,414
Food service		141,941	45,528	187,469	-	187,469	161,589
Student services		22,493	7,215	29,708	-	29,708	18,510
Office expense		13,561	5,214	18,775	1,917	20,692	20,432
Depreciation and amortization		32,400	12,458	44,858	4,582	49,440	50,713
Other		15,448	5,941	21,389	10,943	32,332	45,802
		<u>\$ 2,872,289</u>	<u>\$ 1,088,656</u>	<u>\$ 3,960,945</u>	<u>\$ 596,964</u>	<u>\$ 4,557,909</u>	<u>\$ 4,305,341</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, 2019
(With Comparative Totals For 2018)

	Year ended June 30,	
	2019	2018
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 34,706	\$ (161,124)
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation and amortization	49,440	50,713
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	19,988	69,277
Prepaid expenses	26,853	(97,553)
Accounts payable	(12,601)	(10,002)
Accrued payroll and benefits	22,203	47,252
Deferred revenue	2,491	(11,195)
Deferred lease incentive	-	(26,334)
Deferred lease liability	(6,780)	18,220
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	136,300	(120,746)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(11,828)	(24,698)
NET CASH USED FOR INVESTING ACTIVITIES	(11,828)	(24,698)
NET INCREASE (DECREASE) IN CASH	124,472	(145,444)
Cash at beginning of year	9,353	154,797
CASH AT END OF YEAR	\$ 133,825	\$ 9,353

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

(With Comparative Totals For 2018)

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 had no net assets with donor restrictions at June 30, 2019 or 2018.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

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

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

Contributions are recognized as revenue in the year the pledge is received and documented.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. All donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

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, 2019 and 2018.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2019 or 2018.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

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

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.

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.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant at which time it is recognized as revenue.

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 31, 2016 through June 30, 2019 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, 2019 and 2018.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

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

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$8,400 and \$4,800 for the years ended June 30, 2019 and 2018, 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 June 30, 2018

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, 2018, from which the summarized information was derived.

Change in accounting principle

During August 2016 FASB issued Accounting Standards Update No. 2016-14 "*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*". The main provisions of ASU 2016-14 require a Not-For-Profit (NFP) to:

- 1) Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than three classes. That is, an NFP will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.
- 2) Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the required three classes as in prior years. An NFP would continue to report the currently required amount of the change in total net assets for the period.
- 3) Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- 4) Provide enhanced disclosures about:
 - a) Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

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

- b) Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date.
- c) Quantitative information, and additional qualitative information, that communicates the availability of an NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by Board of Trustee decisions.
- d) Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location.
- e) Method(s) used to allocate costs among program and support functions.

ASU 2016-14 is effective for financial statements beginning after December 15, 2017 and was applied retrospectively except for disclosures regarding liquidity and availability of resources, which are presented only for the current year. There was no effect on total assets or changes in net assets. The Charter School has adopted the amendments effective July 1, 2018.

New accounting pronouncements

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 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.

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 guidance in this new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. There has been an exposure draft proposed that would delay the ASU from the initial timetable and, if passed, will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. 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.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

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 2, 2019, 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 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 year 2019.

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 June 30, 2019:

	<u>Amount</u>
Cash	\$ 133,825
Grants and other receivables	<u>144,362</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 278,187</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30</u>	
	<u>2019</u>	<u>2018</u>
Undesignated net (deficiency) assets	\$ (68,697)	\$ (141,015)
Invested in property and equipment	<u>298,490</u>	<u>336,102</u>
	<u>\$ 229,793</u>	<u>\$ 195,087</u>

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, 2014 was \$350,000 per annum and the base rent will increase in accordance with the lease agreement. Rent expense totaled \$408,216 and \$408,220, for the years ended June 30, 2019 and 2018, respectively.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 408,000
2021	408,160
2022	408,163
2023	408,163
2024	408,163
Thereafter	<u>1,632,653</u>
	<u>\$ 3,673,302</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, 2019 and 2018.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE E: OPERATING LEASE

The Charter School leased office equipment under a non-cancelable lease agreement which expired in June 2018. In April 2017, the Charter School entered into a buyout agreement for the previous office equipment and entered into another non-cancelable lease agreement expiring in March 2022. Lease expense was approximately \$37,000 and \$26,000 for the years ended June 30, 2019 and 2018, respectively. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 25,020
2021	25,020
2022	<u>18,765</u>
	<u>\$ 68,805</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, 2019 or 2018.

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, 2019 and 2018, approximately 97% and 79%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2019 and 2018, 91% and 92%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE 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.

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, 2019 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 2, 2019.

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, Barw & Co. LLP

Rochester, New York
October 2, 2019