

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, 2023

(With Comparative Totals For 2022)



BUSINESS
ADVISORS
AND CPAS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harbor Science and Arts Charter School

Report on the Audit of the Financial Statements

Opinion

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, 2023 and the related statements of activities, 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, 2023 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.

Change in Accounting Principle

As discussed in Note A to the financial statements, in 2023, Harbor Science and Arts Charter School adopted new accounting guidance related to accounting for leases. Our opinion is not modified with respect to this matter.

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, 2022 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 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 26, 2023 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 Harbor Science and Arts Charter School's internal 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 26, 2023

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

(With Comparative Totals For 2022)

<u>ASSETS</u>	June 30,	
	<u>2023</u>	<u>2022</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 197,562	\$ 501,211
Grants and other receivables	647,398	593,615
Prepaid expenses	76,524	139,113
TOTAL CURRENT ASSETS	921,484	1,233,939
<u>PROPERTY AND EQUIPMENT</u>		
Furniture and fixtures	76,898	76,898
Computers and software	283,500	249,955
Leasehold improvements	381,916	381,916
	742,314	708,769
Less accumulated depreciation and amortization	483,114	417,822
	259,200	290,947
<u>OTHER ASSETS</u>		
Cash in escrow	75,002	75,000
Right-of-use assets - operating	2,024,578	-
Security deposit	30,000	30,000
	2,129,580	105,000
TOTAL ASSETS	<u>\$ 3,310,264</u>	<u>\$ 1,629,886</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 288,056	\$ 95,984
Accrued payroll and benefits	337,007	374,993
Current portion of note payable	3,346	1,095
Current portion of lease liabilities - operating	389,962	-
TOTAL CURRENT LIABILITIES	1,018,371	472,072
<u>OTHER LIABILITIES</u>		
Deferred lease liability	-	89,658
Note payable	157,504	156,652
Long-term lease liabilities - operating	1,731,277	-
OTHER LIABILITIES	1,888,781	246,310
TOTAL LIABILITIES	2,907,152	718,382
<u>NET ASSETS</u> - Without donor restrictions	403,112	911,504
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,310,264</u>	<u>\$ 1,629,886</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, 2023
(With Comparative Totals For 2022)

	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Revenue, gains, and other support:		
Public school district		
Resident student enrollment	\$ 3,088,622	\$ 3,168,777
Students with disabilities	720,866	708,533
Grants and contracts		
State and local	4,986	4,679
State contributions of nonfinancial assets	15,341	12,928
Federal - Title and IDEA	154,460	163,864
Federal - Other	242,704	473,830
Food service/Child nutrition program	<u>154,692</u>	<u>236,666</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	4,381,671	4,769,277
Expenses:		
Program services:		
Regular education	2,566,158	2,898,175
Special education	<u>1,551,910</u>	<u>1,562,028</u>
TOTAL PROGRAM SERVICES	4,118,068	4,460,203
Management and general	<u>775,500</u>	<u>622,123</u>
TOTAL OPERATING EXPENSES	<u>4,893,568</u>	<u>5,082,326</u>
DEFICIT FROM SCHOOL OPERATIONS	(511,897)	(313,049)
Support and other revenue:		
Contributions:		
Other	3,426	21,641
Fundraising	79	1,364
Paycheck Protection Program loan forgiveness	-	537,906
Other revenue	<u>-</u>	<u>9,874</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>3,505</u>	<u>570,785</u>
CHANGE IN NET ASSETS	(508,392)	257,736
Net assets at beginning of year	<u>911,504</u>	<u>653,768</u>
NET ASSETS AT END OF YEAR	<u>\$ 403,112</u>	<u>\$ 911,504</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, 2023
(With Comparative Totals For 2022)

	No. of positions June 30, 2023	Year ended June 30,					
		2023					2022
		Program Services			Supporting Services	Total	Total
		Regular Education	Special Education	Sub-total	Management and general		
Salaries and staff:							
Administrative staff personnel	8	\$ 258,041	\$ 96,558	\$ 354,599	\$ 332,459	\$ 687,058	\$ 719,204
Instructional personnel	28	1,116,539	745,008	1,861,547	-	1,861,547	2,175,884
Non-instructional personnel	4	184,149	82,108	266,257	10,018	276,275	167,389
TOTAL SALARIES AND STAFF	40	1,558,729	923,674	2,482,403	342,477	2,824,880	3,062,477
Fringe benefits & payroll taxes		340,879	203,021	543,900	76,429	620,329	671,181
Retirement		779	464	1,243	175	1,418	2,032
Legal Services		-	-	-	570	570	-
Accounting / audit services		-	-	-	223,523	223,523	174,359
Other purchased / professional / consulting services		28,051	72,507	100,558	11,383	111,941	121,938
Building and land rent / lease / facility finance interest		240,039	142,963	383,002	53,820	436,822	409,712
Repairs and maintenance		23,332	13,896	37,228	5,231	42,459	52,985
Insurance		26,074	15,529	41,603	5,846	47,449	41,255
Utilities		41,075	24,463	65,538	9,209	74,747	63,282
Supplies / materials		69,108	30,813	99,921	-	99,921	70,627
Equipment and furnishings		20,432	12,574	33,006	6,287	39,293	21,214
Staff development		4,237	2,523	6,760	11,999	18,759	20,000
Marketing / recruitment		11,279	6,718	17,997	2,529	20,526	16,115
Technology		17,309	10,309	27,618	3,881	31,499	28,281
Food service		106,312	47,403	153,715	-	153,715	200,135
Student services		4,867	2,170	7,037	-	7,037	12,205
Office expense		22,466	12,395	34,861	3,875	38,736	29,338
Depreciation and amortization		35,879	21,369	57,248	8,044	65,292	69,188
Other		15,311	9,119	24,430	10,222	34,652	16,002
		<u>\$ 2,566,158</u>	<u>\$ 1,551,910</u>	<u>\$ 4,118,068</u>	<u>\$ 775,500</u>	<u>\$ 4,893,568</u>	<u>\$ 5,082,326</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, 2023
(With Comparative Totals For 2022)

	Year ended June 30,	
	2023	2022
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (508,392)	\$ 257,736
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	65,292	69,188
Forgiveness of Paycheck Protection Program loan	-	(537,906)
Interest expense included in note payable	4,385	8,297
Forgiveness of accrued interest expense included in notes payable	-	(9,874)
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(53,783)	(395,527)
Prepaid expenses	62,589	(62,488)
Accounts payable	192,072	(235)
Accrued payroll and benefits	(37,986)	89,059
Deferred lease liability	(89,658)	(14,943)
Operating lease liabilities, net of right of use assets	96,661	-
NET CASH USED FOR OPERATING ACTIVITIES	(268,820)	(596,693)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(33,545)	(97,528)
NET CASH USED FOR INVESTING ACTIVITIES	(33,545)	(97,528)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments of note payable	(1,282)	-
NET CASH USED FOR INVESTING ACTIVITIES	(1,282)	-
NET DECREASE IN CASH AND RESTRICTED CASH	(303,647)	(694,221)
Cash and restricted cash at beginning of year	576,211	1,270,432
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 272,564</u>	<u>\$ 576,211</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2023
(With Comparative Totals For 2022)

	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</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	\$ 197,562	\$ 501,211
Cash in escrow	<u>75,002</u>	<u>75,000</u>
	<u>\$ 272,564</u>	<u>\$ 576,211</u>
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Forgiveness of Paycheck Protection Program loan	<u>\$ -</u>	<u>\$ (537,906)</u>
Interest expense included in notes payable	<u>\$ 4,385</u>	<u>\$ 8,297</u>
Forgiveness of accrued interest expense included in notes payable	<u>\$ -</u>	<u>\$ (9,874)</u>
<u>NON-CASH OPERATING ACTIVITIES</u>		
Contributions of nonfinancial assets	<u>\$ 15,341</u>	<u>\$ 12,928</u>

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

(With Comparative Totals For 2022)

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.

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, 2023 and 2022.

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, 2023

(With Comparative Totals For 2022)

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,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Grants and other receivables	\$ -	\$ 19,387	\$ 49,459

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, 2023

(With Comparative Totals For 2022)

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, 2023 and 2022. The Charter School received cost-reimbursement grants of approximately \$285,500 that have not been recognized at June 30, 2023, 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, 2023 and 2022.

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, 2023 and June 30, 2022.

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, 2023

(With Comparative Totals For 2022)

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 tax returns for the years ended June 30, 2020 through June 30, 2023 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.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$20,500 and \$16,100 for the years ended June 30, 2023 and 2022, respectively.

Gifts-in-kind

During the years ended June 30, 2023 and 2022, 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 \$15,341 and \$12,928 for the years ended June 30, 2023 and 2022.

<u>Program or Supporting Service</u>	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Regular education	\$ 10,739	\$ 9,050
Special education	4,602	3,878
Total	<u>\$ 15,341</u>	<u>\$ 12,928</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, 2023

(With Comparative Totals For 2022)

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

Comparatives for year ended 2022

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, 2022, 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.

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. Operating 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 operating 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 lease payments is recognized on a straight-line basis over the lease term.

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 standard – 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 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 adopted ASC 842 with the date of initial application of July 1, 2022.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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

The Charter School recognized and measured leases existing at July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

As part of the adoption of ASC 842, the Charter School elected practical expedients to account for the existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard; (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance; or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Charter School recognized on July 1, 2022 operating lease liabilities of \$2,457,233, which represents the present value of the remaining operating lease payments of \$2,677,433 discounted using the risk-free rate of 2.88%, and the right-of-use asset of \$2,401,588, which represents operating lease liabilities of \$2,457,233 adjusted for \$55,645 of net deferred lease liabilities and prepaid rent.

New accounting pronouncement – credit losses

In June 2016 the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13), which requires entities to use a new impairment model referred to as the current expected credit losses (CECL) model rather than incurred losses. The new standard affects accounting for loans, accounts (trade) receivable, held-to-maturity debt securities, and other financial assets included in the scope. For non-public entities, the new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. 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.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 26, 2023, 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, 2023

(With Comparative Totals For 2022)

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:

	June 30,	
	2023	2022
Cash	\$ 197,562	\$ 501,211
Grants and other receivables	<u>647,398</u>	<u>593,615</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 844,960</u>	<u>\$ 1,094,826</u>

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30	
	2023	2022
Undesignated net assets	\$ 143,912	\$ 620,557
Invested in property and equipment	<u>259,200</u>	<u>290,947</u>
	<u>\$ 403,112</u>	<u>\$ 911,504</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE D: OPERATING 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, 2023 and 2022. Rent paid for the facility lease for the years ended June 30, 2023 and 2022 was approximately \$416,000 and \$408,000, respectively.

The Charter School leases office equipment under a non-cancelable lease agreement which expires September 2026. Lease expense was approximately \$22,000 and \$17,000 for the years ended June 30, 2023 and 2022, respectively.

A summary of right-of-use assets and liabilities at June 30, 2023 are as follows:

<u>Statement of Financial</u>		
<u>Position Classification</u>		
<u>Assets</u>		
Operating Leases	Other assets	<u>\$ 2,024,578</u>
<u>Liabilities</u>		
Current:		
Operating Leases	Current liabilities	\$ 389,962
Non-current:		
Operating Leases	Other liabilities	<u>1,731,277</u>
		<u>\$ 2,121,239</u>

The components of lease expense for the year ended June 30, 2023 were as follows:

Operating lease cost:	<u>\$ 442,976</u>
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HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE D: OPERATING LEASES, Cont'd

As of June 30, 2023, minimum payments due for lease liabilities for each of the five succeeding fiscal years are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2024	\$ 444,866
2025	453,358
2026	462,021
2027	455,692
2028	<u>459,650</u>
Total lease payments	2,275,587
Less: Interest	<u>(154,348)</u>
Present value of lease liabilities	<u><u>\$ 2,121,239</u></u>

Supplemental information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 437,219
Right-of-use assets obtained in exchange for new lease liabilities (non-cash):	
Operating leases	\$ -
Weighted-average remaining lease term:	4.95 years
Weighted-average discount rate:	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 employee matching contribution.

The Charter School did not make any contributions for the years ended June 30, 2023 and 2022.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

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, 2023 and 2022, approximately 99% of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2023 and 2022, 87% and 81%, 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. For the years ended June 30, 2023 and 2022, 13% and 18%, 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: 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 had a maturity of 2 years and an interest rate of 1%. The loan had the potential for forgiveness provided certain requirements were met by the Charter School. On March 29, 2022, the entire balance including principal of \$537,906 plus accrued interest of \$9,874 was forgiven and recognized as income during the year ended June 30, 2022.

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. The Charter School has made two payments on the loan as of June 30, 2023. Accrued interest as of June 30, 2023 is \$11,396, for a total amount due of \$160,850 at June 30, 2023.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals For 2022)

NOTE I: NOTES 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>
2024	\$ 8,974
2025	7,692
2026	7,692
2027	7,962
2028	7,692
Thereafter	120,838
	<u>\$ 160,850</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 \$230,565 and \$445,073 of revenue relative to ESSER grants during the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023, the Charter School has \$285,500 of ESSER grants available for expenditure through September 30, 2024.

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 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, 2023, 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 26, 2023.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

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 is 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 26, 2023

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2022

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Finding 2022-001

Statement of condition

During our audit, we noted the Charter School did not adhere to the terms of their charter agreement as the Charter School's enrollment fell below 80% of the projected enrollment for the 2021-2022 academic year and written approval from SUNY Charter Schools Institute ("SUNY CSI") was not obtained.

Criteria and effect of conditions

During our audit, we noted the Charter School's charter agreement requires the Charter School to obtain written approval from SUNY CSI prior to commencing or continuing instruction when the total number of students enrolled is less than 80% of the projected enrollment for a given academic year. We noted the Charter School's enrollment was 73% of the projected enrollment for the 2021-2022 academic year.

Recommendation

We recommend the Charter School obtain written approval from SUNY CSI if enrollment falls below 80% of projected enrollment for a given academic year.

Management response

The Charter School was in communication with SUNY CSI about its enrollment; however, it will ensure to receive written approval should enrollment fall below 80% in future years.

Status

For the year ended June 30, 2023, the Charter School was in compliance with the terms of their charter agreement as the Charter School's enrollment did not fall below 80% of the projected enrollment.