

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, 2025

(With Comparative Totals For 2024)



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

Report on the Audit of the Financial Statements

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, 2025 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, 2025, 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, 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2025 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, 2025

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2025

(With Comparative Totals For 2024)

| <u>ASSETS</u> | June 30, | |
|--|--------------|--------------|
| | 2025 | 2024 |
| <u>CURRENT ASSETS</u> | | |
| Cash and cash equivalents | \$ 610,717 | \$ 531,703 |
| Grants and other receivables | 108,171 | 388,876 |
| Prepaid expenses | 78,217 | 31,248 |
| TOTAL CURRENT ASSETS | 797,105 | 951,827 |
| <u>PROPERTY AND EQUIPMENT</u> | | |
| Furniture and fixtures | 76,898 | 76,898 |
| Computers and software | 357,712 | 338,432 |
| Leasehold improvements | 387,416 | 387,416 |
| | 822,026 | 802,746 |
| Less accumulated depreciation and amortization | 633,421 | 557,565 |
| | 188,605 | 245,181 |
| <u>OTHER ASSETS</u> | | |
| Cash in escrow | 75,002 | 75,002 |
| Right-of-use assets - finance | 98,170 | 124,348 |
| Right-of-use assets - operating | 1,212,290 | 1,592,512 |
| Security deposit | 30,000 | 30,000 |
| | 1,415,462 | 1,821,862 |
| TOTAL ASSETS | \$ 2,401,172 | \$ 3,018,870 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable | \$ 244,430 | \$ 107,093 |
| Accrued payroll and benefits | 389,227 | 400,177 |
| Current portion of note payable | 7,692 | 7,692 |
| Current portion of lease liabilities - finance | 25,501 | 24,520 |
| Current portion of lease liabilities - operating | 410,920 | 390,718 |
| TOTAL CURRENT LIABILITIES | 1,077,770 | 930,200 |
| <u>OTHER LIABILITIES</u> | | |
| Note payable | 144,451 | 147,248 |
| Long-term lease liabilities - finance | 75,513 | 101,014 |
| Long-term lease liabilities - operating | 885,532 | 1,296,452 |
| OTHER LIABILITIES | 1,105,496 | 1,544,714 |
| TOTAL LIABILITIES | 2,183,266 | 2,474,914 |
| <u>NET ASSETS</u> - Without donor restrictions | 217,906 | 543,956 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 2,401,172 | \$ 3,018,870 |

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, 2025
(With Comparative Totals For 2024)

| | Year ended June 30, | |
|--|---------------------|--------------------|
| | 2025 | 2024 |
| Revenue, gains, and other support: | | |
| Public school district | | |
| Resident student enrollment | \$ 3,363,171 | \$ 3,867,539 |
| Students with disabilities | 688,880 | 816,761 |
| Grants and contracts | | |
| State and local | 3,783 | 4,479 |
| State contributions of nonfinancial assets | 13,192 | 14,123 |
| Federal - Title and IDEA | 157,986 | 149,571 |
| Federal - Other | 10,260 | 311,906 |
| Food service/Child nutrition program | <u>177,104</u> | <u>193,812</u> |
| TOTAL REVENUE, GAINS, AND OTHER SUPPORT | 4,414,376 | 5,358,191 |
| Expenses: | | |
| Program services: | | |
| Regular education | 3,642,858 | 3,419,249 |
| Special education | <u>1,043,223</u> | <u>1,412,026</u> |
| TOTAL PROGRAM SERVICES | 4,686,081 | 4,831,275 |
| Management and general | <u>806,289</u> | <u>460,160</u> |
| TOTAL OPERATING EXPENSES | <u>5,492,370</u> | <u>5,291,435</u> |
| (DEFICIT) SURPLUS FROM SCHOOL OPERATIONS | (1,077,994) | 66,756 |
| Support and other revenue: | | |
| Contributions | 91,300 | 74,088 |
| Employee Retention Credit, net | 649,286 | - |
| Other | <u>11,358</u> | <u>-</u> |
| TOTAL SUPPORT AND OTHER REVENUE | <u>751,944</u> | <u>74,088</u> |
| CHANGE IN NET ASSETS | (326,050) | 140,844 |
| Net assets without donor restrictions at beginning of year | <u>543,956</u> | <u>403,112</u> |
| NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR | <u>\$ 217,906</u> | <u>\$ 543,956</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, 2025
 (With Comparative Totals For 2024)

| | No. of positions June 30, 2025 | Year ended June 30, | | | | | | |
|--|--------------------------------------|----------------------|----------------------|---------------------|------------------------------|---------------------|---------------------|--|
| | | 2025 | | | 2024 | | | |
| | | Program Services | | | Supporting Services | | | |
| | | Regular Education | Special Education | Sub-total | Management and general | Total | Total | |
| Salaries and staff: | | | | | | | | |
| Administrative staff personnel | 10 | \$ 254,080 | \$ 85,576 | \$ 339,656 | \$ 418,988 | \$ 758,644 | \$ 611,153 | |
| Instructional personnel | 27 | 1,904,648 | 512,347 | 2,416,995 | - | 2,416,995 | 2,358,471 | |
| Non-instructional personnel | 5 | 166,242 | 58,586 | 224,828 | 7,732 | 232,560 | 253,898 | |
| TOTAL SALARIES AND STAFF | 42 | 2,324,970 | 656,509 | 2,981,479 | 426,720 | 3,408,199 | 3,223,522 | |
| Fringe benefits & payroll taxes | | 459,490 | 128,404 | 587,894 | 87,856 | 675,750 | 610,107 | |
| Retirement | | 1,279 | 358 | 1,637 | 245 | 1,882 | 2,451 | |
| Accounting / audit services | | - | - | - | 149,269 | 149,269 | 129,343 | |
| Other purchased / professional / consulting services | | 34,742 | 12,243 | 46,985 | 16,548 | 63,533 | 130,506 | |
| Building and land rent / lease / facility finance interest | | 293,962 | 82,147 | 376,109 | 56,207 | 432,316 | 440,643 | |
| Repairs and maintenance | | 34,945 | 9,766 | 44,711 | 6,682 | 51,393 | 58,109 | |
| Insurance | | 52,834 | 14,764 | 67,598 | 10,102 | 77,700 | 48,914 | |
| Utilities | | 49,119 | 13,726 | 62,845 | 9,392 | 72,237 | 58,409 | |
| Supplies / materials | | 69,223 | 24,395 | 93,618 | - | 93,618 | 79,628 | |
| Equipment and furnishings | | 15,275 | 4,268 | 19,543 | 2,921 | 22,464 | 33,201 | |
| Staff development | | 13,266 | 3,707 | 16,973 | 2,536 | 19,509 | 12,632 | |
| Marketing / recruitment | | 7,774 | 2,172 | 9,946 | 1,486 | 11,432 | 56,813 | |
| Technology | | 27,470 | 7,676 | 35,146 | 5,252 | 40,398 | 30,279 | |
| Food service | | 104,658 | 36,883 | 141,541 | - | 141,541 | 147,983 | |
| Student services | | 44,002 | 15,507 | 59,509 | - | 59,509 | 58,097 | |
| Office expense | | 20,609 | 5,759 | 26,368 | 3,941 | 30,309 | 36,088 | |
| Depreciation and amortization | | 69,379 | 19,388 | 88,767 | 13,266 | 102,033 | 87,540 | |
| Other | | 19,861 | 5,551 | 25,412 | 13,866 | 39,278 | 47,170 | |
| | | <u>\$ 3,642,858</u> | <u>\$ 1,043,223</u> | <u>\$ 4,686,081</u> | <u>\$ 806,289</u> | <u>\$ 5,492,370</u> | <u>\$ 5,291,435</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, 2025
(With Comparative Totals For 2024)

| | <u>Year ended June 30,</u> | |
|---|----------------------------|-------------------|
| | <u>2025</u> | <u>2024</u> |
| <u>CASH FLOWS - OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ (326,050) | \$ 140,844 |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: | | |
| Depreciation and amortization | 75,855 | 74,451 |
| Amortization of finance lease asset in depreciation and amortization | 26,178 | 13,089 |
| Changes in certain assets and liabilities affecting operations: | | |
| Grants and other receivables | 280,705 | 258,522 |
| Prepaid expenses | (46,969) | 45,276 |
| Accounts payable | 137,337 | (180,963) |
| Accrued payroll and benefits | (10,950) | 63,170 |
| Operating lease liabilities, net of right of use assets | <u>(10,496)</u> | <u>(2,003)</u> |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 125,610 | 412,386 |
| <u>CASH FLOWS - INVESTING ACTIVITIES</u> | | |
| Purchases of property and equipment | <u>(19,279)</u> | <u>(60,432)</u> |
| NET CASH USED FOR INVESTING ACTIVITIES | (19,279) | (60,432) |
| <u>CASH FLOWS - FINANCING ACTIVITIES</u> | | |
| Repayments of finance lease | (24,520) | (11,903) |
| Repayments of note payable | <u>(2,797)</u> | <u>(5,910)</u> |
| NET CASH USED FOR FINANCING ACTIVITIES | <u>(27,317)</u> | <u>(17,813)</u> |
| NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 79,014 | 334,141 |
| Cash, cash equivalents and restricted cash at beginning of year | <u>606,705</u> | <u>272,564</u> |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR | <u>\$ 685,719</u> | <u>\$ 606,705</u> |

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2025
(With Comparative Totals For 2024)

| | <u>Year ended June 30,</u> | |
|--|----------------------------|-------------------|
| | <u>2025</u> | <u>2024</u> |
| <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u> | | |
| Reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows: | | |
| Cash and cash equivalents | \$ 610,717 | \$ 531,703 |
| Cash in escrow | <u>75,002</u> | <u>75,002</u> |
| | <u>\$ 685,719</u> | <u>\$ 606,705</u> |
| | | |
| Cash paid during the year for interest | <u>\$ 8,653</u> | <u>\$ 6,903</u> |
| <u>NON-CASH OPERATING, INVESTING AND FINANCING ACTIVITIES</u> | | |
| Right-of-use assets obtained in exchange for finance lease liabilities | <u>\$ -</u> | <u>\$ 135,028</u> |
| Contributions of nonfinancial assets | <u>\$ 13,192</u> | <u>\$ 14,123</u> |

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2025

(With Comparative Totals For 2024)

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, 2025 and 2024, 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 had no net assets with donor restrictions at June 30, 2025 and 2024.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2025

(With Comparative Totals For 2024)

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>2025</u> | <u>2024</u> | <u>2023</u> |
| Grants and other receivables | \$ - | \$ 16,946 | \$ - |

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, 2025

(With Comparative Totals For 2024)

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, 2025 and 2024. There were no awarded cost-reimbursement grants unspent at June 30, 2025.

Cash and cash equivalents

Cash and cash equivalents, including bank deposit accounts and certain money market accounts, are maintained at a financial institution located in New York and are insured by the FDIC up to \$250,000 at that institution. The Charter School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In the normal course of business, the cash 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 and cash equivalents.

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, 2025 and 2024.

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, 2025 and 2024.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are 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 lesser of the asset's useful life or the remaining term of the lease.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2025

(With Comparative Totals For 2024)

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

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 or amortization are removed from the accounts and the related gain or loss is reflected in operations.

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 Charter School believes it has no material uncertain tax positions and, accordingly, it has not recognized 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 and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$11,400 and \$56,800 for the years ended June 30, 2025 and 2024, respectively.

Gifts-in-kind

During the years ended June 30, 2025 and 2024, 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 \$13,192 and \$14,123 for the years ended June 30, 2025 and 2024.

| <u>Program or Supporting Service</u> | <u>Year ended June 30,</u> | |
|--------------------------------------|----------------------------|------------------|
| | <u>2025</u> | <u>2024</u> |
| Regular education | \$ 9,234 | \$ 9,886 |
| Special education | <u>3,958</u> | <u>4,237</u> |
| Total | <u>\$ 13,192</u> | <u>\$ 14,123</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, 2025

(With Comparative Totals For 2024)

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

Comparatives for year ended June 30, 2024

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, 2024, from which the summarized information was derived.

Leases

The Charter School leases its facilities and office equipment and determines if an 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 material 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.

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, 2025, 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, 2025

(With Comparative Totals For 2024)

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 and cash equivalents 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 education and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter 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, | |
|--|-------------------|-------------------|
| | <u>2025</u> | <u>2024</u> |
| Cash and cash equivalents | \$ 610,717 | \$ 531,703 |
| Grants and other receivables | <u>108,171</u> | <u>388,876</u> |
| Total financial assets available to management for general expenditures within one year | <u>\$ 718,888</u> | <u>\$ 920,579</u> |

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

| | June 30, | |
|------------------------------------|-------------------|-------------------|
| | <u>2025</u> | <u>2024</u> |
| Undesignated net assets | \$ 29,301 | \$ 298,775 |
| Invested in property and equipment | <u>188,605</u> | <u>245,181</u> |
| | <u>\$ 217,906</u> | <u>\$ 543,956</u> |

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2025

(With Comparative Totals For 2024)

NOTE D: LEASES

Effective July 1, 2013, the Charter School entered into a fifteen-year lease for its facilities through June 30, 2028. The initial 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, 2025 and 2024. Rent paid for the facility lease for the years ended June 30, 2025 and 2024 was approximately \$433,000 and \$425,000, respectively.

In December 2023, the Charter School entered into a finance lease agreement for office equipment through March 2029. Equipment lease expense was approximately \$29,000 and \$22,000 for the years ended June 30, 2025 and 2024, respectively.

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>2025</u> | <u>2024</u> |
| <u>Assets</u> | | | |
| Finance leases | Other assets | \$ 98,170 | \$ 124,348 |
| Operating leases | Other assets | <u>1,212,290</u> | <u>1,592,512</u> |
| | Total lease assets | <u>\$ 1,310,460</u> | <u>\$ 1,716,860</u> |
| <u>Liabilities</u> | | | |
| Current: | | | |
| Finance leases | Current liabilities | 25,501 | 24,520 |
| Operating leases | Current liabilities | 410,920 | 390,718 |
| Long-term: | | | |
| Finance leases | Other liabilities | 75,513 | 101,014 |
| Operating leases | Other liabilities | <u>885,532</u> | <u>1,296,452</u> |
| | Total lease liabilities | <u>\$ 1,397,466</u> | <u>\$ 1,812,704</u> |

The components of lease expense were as follows:

| | <u>Year ended June 30,</u> | |
|-------------------------------|----------------------------|-------------------|
| | <u>2025</u> | <u>2024</u> |
| Finance lease costs: | | |
| Amortization of ROU assets | \$ 26,178 | \$ 13,089 |
| Interest on lease liabilities | <u>4,400</u> | <u>2,556</u> |
| | Total finance lease costs | 15,645 |
| Operating lease cost | <u>422,642</u> | <u>429,382</u> |
| | <u>\$ 453,220</u> | <u>\$ 445,027</u> |

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2025

(With Comparative Totals For 2024)

NOTE D: LEASES, Cont'd

As of June 30, 2025, minimum payments due for lease liabilities are as follows:

| <u>Year ending June 30,</u> | <u>Finance</u> | <u>Operating</u> | <u>Total</u> |
|------------------------------------|-------------------|---------------------|---------------------|
| 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 | 108,450 | 1,352,088 | 1,460,538 |
| Less: Interest | <u>(7,436)</u> | <u>(55,636)</u> | <u>(63,072)</u> |
| Present value of lease liabilities | <u>\$ 101,014</u> | <u>\$ 1,296,452</u> | <u>\$ 1,397,466</u> |

Supplemental information is as follows:

| | <u>Year ended June 30,</u> | |
|--|----------------------------|-------------|
| | <u>2025</u> | <u>2024</u> |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows paid for finance leases | \$ 4,480 | \$ 2,146 |
| Financing cash flows paid for finance leases | \$ 24,440 | \$ 9,904 |
| Operating cash flows paid for operating leases | \$ 433,138 | \$ 398,377 |
| Right-of-use assets obtained in exchange for new finance lease liabilities (non-cash): | \$ - | \$ 135,028 |
| Weighted-average remaining lease term for finance leases: | 3.75 years | 4.75 years |
| Weighted-average remaining lease term for operating leases: | 3.00 years | 4.00 years |
| Weighted-average discount rate for finance leases: | 3.93% | 3.93% |
| 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, 2025 and 2024.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2025

(With Comparative Totals For 2024)

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, 2025 and 2024, approximately 100% and 95%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2025 and 2024, approximately 90% and 86%, 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 year ended June 30, 2024, 12% 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, 2025 and 2024 was \$2,143 and \$11,596, respectively, for a total amount due of \$152,143 and \$154,940 at June 30, 2025 and 2024, respectively.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2025

(With Comparative Totals For 2024)

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> |
|-----------------------------|-------------------|
| 2026 | \$ 7,692 |
| 2027 | 7,692 |
| 2028 | 7,692 |
| 2029 | 7,692 |
| 2030 | 7,692 |
| Thereafter | <u>113,683</u> |
| | <u>\$ 152,143</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 recognized \$285,537 of revenue relative to ESSER grants during the year ended June 30, 2024. The Charter School fully utilized allocated ESSER grants as of June 30, 2024.

NOTE K: EMPLOYEE RETENTION CREDIT

In March, 2020, the CARES Act was enacted. Under the CARES Act, the Employee Retention Credit ("ERC"), a refundable wage-related tax credit, was made available to eligible employers. The Charter School recognized a net benefit of approximately \$649,300 recorded as other revenue in the statement of activities and changes in net assets related to this credit during the year ended June 30, 2025. Related fees incurred were approximately \$181,500. The Charter School received payment in full during the year ended June 30, 2025.

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, 2025, 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, 2025.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not 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, 2025