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, 2020
(With Comparative Totals For 2019)

MMB

MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harbor Science and Arts Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Science and Arts Charter School, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Science and Arts Charter School as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Harbor Science and Arts Charter School's June 30, 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 2, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020 on our consideration of Harbor Science and Arts Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harbor Science and Arts Charter School's internal control over financial reporting and compliance.

Emphasis of Matters

As discussed in Note A to the financial statements, in 2020, Harbor Science and Arts Charter School adopted new accounting guidance for recognition of revenue, contributions received and statement of cash flows presentation. Our opinion is not modified with respect to these matters.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 28, 2020

WE VALUE YOUR FUTURE

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020
(With Comparative Totals For 2019)

ASSETS	June 30, 2020	June 30, 2019
CURRENT ASSETS		
Cash	$ 743,666	$ 133,825
Grants and other receivables	166,286	144,362
Prepaid expenses	87,231	78,263
TOTAL CURRENT ASSETS	997,183	356,450
PROPERTY AND EQUIPMENT		
Furniture and fixtures	72,881	72,881
Computers and software	167,347	139,824
Leasehold improvements	353,769	353,769
	593,997	566,474
Less accumulated depreciation and amortization	316,541	267,984
	277,456	298,490
OTHER ASSETS		
Cash in escrow	75,000	75,000
Security deposit	30,000	30,000
	105,000	105,000
TOTAL ASSETS	$ 1,379,639	$ 759,940
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 55,911	$ 70,775
Accrued payroll and benefits	169,996	325,056
Current portion of note payable	206,576	-
TOTAL CURRENT LIABILITIES	432,483	395,831
NON-CURRENT LIABILITIES		
Deferred lease liability	119,536	134,316
Note payable	331,330	-
OTHER LIABILITIES	450,866	134,316
TOTAL LIABILITIES	883,349	530,147
NET ASSETS		
Without donor restrictions	471,290	229,793
With donor restrictions	25,000	-
	496,290	229,793
TOTAL LIABILITIES AND NET ASSETS	$ 1,379,639	$ 759,940

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, 2020
(With Comparative Totals For 2019)

	Year ended June 30,			
	2020			2019
	Without donor restrictions	With donor restrictions	Total	Total
Revenue, gains, and other support:				
Public school district				
Resident student enrollment	$ 3,762,767	$ -	$ 3,762,767	$ 3,987,362
Students with disabilities	302,841	-	302,841	198,156
Grants and contracts				
State and local	19,990	-	19,990	19,692
Federal - Title and IDEA	153,320	-	153,320	199,235
Federal - Other	12,516	-	12,516	4,925
Food service/Child nutrition program	104,282	-	104,282	173,753
TOTAL REVENUE, GAINS AND OTHER SUPPORT	4,355,716	-	4,355,716	4,583,123
Expenses:				
Program services:				
Regular education	2,702,335	-	2,702,335	2,872,289
Special education	987,437	-	987,437	1,088,656
TOTAL PROGRAM SERVICES	3,689,772	-	3,689,772	3,960,945
Management and general	474,804	-	474,804	596,964
TOTAL OPERATING EXPENSES	4,164,576	-	4,164,576	4,557,909
SURPLUS FROM SCHOOL OPERATIONS	191,140	-	191,140	25,214
Support and other revenue:				
Contributions:				
Other	36,491	25,000	61,491	6,984
Fundraising	13,866	-	13,866	2,508
TOTAL SUPPORT AND OTHER REVENUE	50,357	25,000	75,357	9,492
CHANGE IN NET ASSETS	241,497	25,000	266,497	34,706
Net assets at beginning of year	229,793	-	229,793	195,087
NET ASSETS AT END OF YEAR	$ 471,290	$ 25,000	$ 496,290	$ 229,793

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, 2020
(With Comparative Totals For 2019)

		Year ended June 30,					
		2020					2019
		Program Services			Supporting Services		
	No. of positions June 30, 2020	Regular Education	Special Education	Sub-total	Management and general	Total	Total
Salaries and staff:							
Administrative staff personnel	12	$ 438,672	$ 129,681	$ 568,353	$ 267,728	$ 836,081	$ 673,409
Instructional personnel	21	1,025,685	439,746	1,465,431	-	1,465,431	1,712,850
Non-instructional personnel	5	172,376	40,875	213,251	3,157	216,408	251,908
TOTAL SALARIES AND STAFF	38	1,636,733	610,302	2,247,035	270,885	2,517,920	2,638,167
Fringe benefits & payroll taxes		366,919	136,814	503,733	60,726	564,459	628,418
Accounting / audit services		-	-	-	44,330	44,330	156,000
Other purchased / professional / consulting services		45,751	13,007	58,758	11,531	70,289	96,938
Building and land rent / lease / facility finance interest		267,463	99,731	367,194	44,266	411,460	410,808
Repairs and maintenance		39,314	14,659	53,973	6,507	60,480	50,598
Insurance		29,175	10,879	40,054	4,829	44,883	45,037
Utilities		28,938	10,790	39,728	4,789	44,517	38,017
Supplies / materials		64,957	18,468	83,425	-	83,425	69,817
Equipment rental		21,155	7,888	29,043	3,501	32,544	44,243
Staff development		7,929	2,893	10,822	5,501	16,323	13,551
Marketing / recruitment		12,266	4,574	16,840	2,030	18,870	8,375
Technology		22,427	8,363	30,790	3,712	34,502	38,299
Food service		103,111	29,315	132,426	-	132,426	187,469
Student services		13,549	3,852	17,401	-	17,401	29,708
Office expense		9,037	3,370	12,407	1,496	13,903	20,692
Depreciation and amortization		31,564	11,769	43,333	5,224	48,557	49,440
Other		2,047	763	2,810	5,477	8,287	32,332
		$ 2,702,335	$ 987,437	$ 3,689,772	$ 474,804	$ 4,164,576	$ 4,557,909

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, 2020
(With Comparative Totals For 2019)

	Year ended June 30, 2020	Year ended June 30, 2019
CASH FLOWS - OPERATING ACTIVITIES		
Change in net assets	$ 266,497	$ 34,706
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	48,557	49,440
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(21,924)	19,988
Prepaid expenses	(8,968)	26,853
Accounts payable	(14,864)	(10,110)
Accrued payroll and benefits	(155,060)	22,203
Deferred lease liability	(14,780)	(6,780)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	99,458	136,300
CASH FLOWS - INVESTING ACTIVITIES		
Purchases of property and equipment	(27,523)	(11,828)
NET CASH USED FOR INVESTING ACTIVITIES	(27,523)	(11,828)
CASH FLOWS - FINANCING ACTIVITIES		
Borrowings on note payable	537,906	-
NET CASH PROVIDED FROM FINANCING ACTIVITIES	537,906	-
NET INCREASE IN CASH AND RESTRICTED CASH	609,841	124,472
Cash and restricted cash at beginning of year	208,825	84,353
CASH AND RESTRICTED CASH AT END OF YEAR	$ 818,666	$ 208,825
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
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	$ 743,666	$ 133,825
Cash in escrow	75,000	75,000
	$ 818,666	$ 208,825

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

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

The Charter School

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

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

Classification of net assets

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

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

Net Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter School had net assets with donor restrictions of $25,000 at June 30, 2020. The Charter School had no net assets with donor restrictions at June 30, 2019.

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.

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 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,		
	2020	2019	2018
Grants and other receivables	$ 69,483	$ -	$ 89,509

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.

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, 2020 and 2019, respectively. The Charter School received cost-reimbursement grants of approximately $14,800 and $11,300 that have not been recognized at June 30, 2020 and 2019, respectively, because qualifying expenditures have not yet been incurred.

Cash

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

Cash in escrow

The Charter School maintains cash in an escrow account, pursuant to its Charter Agreement, to pay off expenses in the event of dissolution of the Charter School. The amount in escrow was $75,000 at June 30, 2020 and 2019.

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, 2020 or 2019.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives which range from three to fifteen years. Leasehold improvements are being amortized over the term of the lease.

Deferred lease liability

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

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 31, 2017 through June 30, 2020 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed services

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

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions received during the years ended June 30, 2020 and 2019.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated $18,900 and $8,400 for the years ended June 30, 2020 and 2019, respectively.

Use of estimates in the preparation of financial statements

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

Comparatives for year ended June 30, 2019

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, 2019, from which the summarized information was derived.

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

Adoption of new accounting standards

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Charter School adopted ASC 606 with the date of initial application of July 1, 2019.

The Charter School applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets, at July 1, 2019. There was no adjustment to the opening balance of net assets at July 1, 2019, as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The Charter School does not expect the adoption of the new revenue standard to have a material impact on its income on an ongoing basis.

As part of the adoption of ASC 606, the Charter School elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligation, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. The Charter School adopted the provisions of ASU 2018-08 applicable to contributions received with a date of initial application of July 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets.

Statement of cash flows

In November 2016, the FASB issued new guidance related to the statement of cash flows (ASC 230), which requires entities to include restricted cash in the reconciliation of the beginning-of-year to the end-of-year balance of cash in the statement of cash flows. ASC 230 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Charter School adopted this standard as of July 1, 2019 using the retrospective transition method.

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

New accounting pronouncement - leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School's financial position or results of operations.

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, 2020**,** which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted except as described in Note J.

NOTE B: LIQUIDITY AND AVAILABILITY

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

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

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Charter School's cash and shows positive cash generated by operations for fiscal years 2020 and 2019.

NOTE B: LIQUIDITY AND AVAILABILITY, Cont'd

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at:

	June 30, 2020	June 30, 2019
Cash	$ 743,666	$ 133,825
Grants and other receivables	166,286	144,362
Total financial assets available within one year	909,952	278,187
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(25,000)	-
Total amounts unavailable for general expenditures within one year	(25,000)	-
Total financial assets available to management for general expenditures within one year	$ 884,952	$ 278,187

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30 2020	June 30 2019
Undesignated net assets (deficiency)	$ 193,834	$ (68,697)
Invested in property and equipment	277,456	298,490
	$ 471,290	$ 229,793

Net assets with donor restrictions consist of the following:

	June 30, 2020	June 30, 2019
Technology	$ 25,000	$ -

NOTE D: SCHOOL FACILITY

Effective July 1, 2013, the Charter School entered into a fifteen-year lease for its facilities through June 30, 2028. The Charter School's base rent for the year ended June 30, 2014 was $350,000 per annum and the base rent will increase in accordance with the lease agreement. Rent expense totaled $393,220 for both the years ended June 30, 2020 and 2019.

The future minimum payments on this agreement are as follows:

Year ending June 30,	Amount
2021	408,160
2022	408,163
2023	408,163
2024	408,163
2025	408,163
Thereafter	1,224,490
	$ 3,265,302

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, 2020 and 2019.

NOTE E: OPERATING LEASE

The Charter School leased office equipment under a non-cancelable lease agreement expiring in March 2022. Lease expense was approximately $28,000 and $37,000 for the years ended June 30, 2020 and 2019, respectively. The future minimum payments on these agreements are as follows:

Year ending June 30,	Amount
2021	$ 25,020
2022	18,765
	$ 43,785

NOTE F: RETIREMENT PLAN

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

The Charter School did not make any contributions for the years ended June 30, 2020 or 2019.

NOTE G: CONTINGENCY

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

NOTE H: CONCENTRATIONS

At June 30, 2020 and 2019, approximately 95% and 97%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2020 and 2019, 93% and 91%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE I: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort.

NOTE J: NOTE 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 established by the Small Business Administration. The loan has a maturity of 2 years and an interest rate of 1%. The loan has the potential for forgiveness provided certain requirements are met by the Charter School. The loan was funded in May 2020.

Estimated annual maturities of the note payable are as follows:

Year ending June 30,	Amount
2021	$ 206,576
2022	331,330
	$ 537,906

On August 29, 2020, the Charter School received a $150,000 Economic Injury Disaster Loan through the Small Business Administration. 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. Interest will accrue at a rate of 2.75% per annum.

NOTE K: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Charter School's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Charter School is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Trustees
Harbor Science and Arts Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harbor Science and Arts Charter School, which comprise the statement of financial position as of June 30, 2020 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, 2020.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of This Report

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

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 28, 2020

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HARBOR SCIENCE AND ARTS CHARTER SCHOOL
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Mengel, Metzger, Barr & Co. LLP
Certified Public Accountants
100 Chestnut Street, Suite 1200
Rochester, New York 14604

This representation letter is provided in connection with your audits of the financial statements of Harbor Science and Arts Charter School, which comprise the statement of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 1, 2020, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- We have complied with all contractual agreements, grants, and donor restrictions.
- We have maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.
- We have accurately presented the entity's position regarding taxation and tax-exempt status.
- The bases used for allocation of functional expenses are reasonable and appropriate.
- We have included in the financial statements all assets and liabilities under the entity's control.
- We have designed, implemented, and maintained adequate internal controls over the receipt and recording of contributions.
- Classifications between net asset classes are proper.
- Methods and significant assumptions used by management to determine fair values, their consistency in application, and the completeness and adequacy of fair value information for financial statement measurement and disclosure purposes are appropriate.
- We have reviewed the Organization's draft financial statements prepared by you based upon financial information we provided to you. We have reviewed all supporting schedules and accept full responsibility for the Organization's financial statements prepared in accordance with U.S. GAAP.
- Disclosures includes in the financial statements regarding the relevant significant business, financial, and reporting impacts of the COVID-19 outbreak accurately reflect management's full consideration of such impacts.
- To the extent our normal procedures and controls related to our financial close or other reporting processes were adversely impacted by the COVID-19 outbreak, we took appropriate actions and safeguards to reasonably ensure the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- Other than as disclosed in Notes J and K to the financial statements, no other impacts from the COVID-19 outbreak are necessary to be reflected in those financial statements.
- We have considered the accounting and reporting requirements of FASB ASC 740-10. We believe there are no material liabilities (or reduction in amounts refundable) required for unrecognized tax benefits related to our tax positions, as defined and described in FASB ASC 740-10-20.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
  - Minutes of the meetings of the Board of Trustees and other committees, or summaries of actions of recent meetings for which minutes have not yet been prepared;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
- We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Very truly yours,

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

Ann Bommarito, Principal

Carl Dindial

Carl Dindial, Finance Manager