PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

BRONX, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

OTHER CONSOLIDATING FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2021
(With Comparative Totals for 2020)

MMB

MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pharos Academy Charter School and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Pharos Academy Charter School and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pharos Academy Charter School and Affiliates as of June 30, 2021, and the changes in its net assets, functional expenses, 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 Pharos Academy Charter School and Affiliates' June 30, 2020 consolidated financial statements and we expressed an unmodified audit opinion on those consolidated audited financial statements in our report dated October 28, 2020. In our opinion, the summarized comparative information presented herein as of June 30, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it is derived.

Other Report Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2021 on our consideration of Pharos Academy Charter School and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 Pharos Academy Charter School and Affiliates' internal control over financial reporting and compliance.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 20, 2021

PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021
(With Comparative Totals for 2020)

ASSETS	June 30, 2021	June 30, 2020
CURRENT ASSETS		
Cash and cash equivalents (including restricted cash of $879,701 and 811,901 respectively)	$ 3,666,119	$ 4,225,850
Investments	2,543,008	2,507,056
Grants and contracts receivable	825,605	407,511
Anticipated loan forgiveness	-	380,000
Prepaid expenses	109,650	69,295
TOTAL CURRENT ASSETS	7,144,382	7,589,712
PROPERTY AND EQUIPMENT, net	10,721,170	10,445,295
OTHER ASSETS		
Deposits	47,885	25,925
Cash in escrow	71,057	70,932
	118,942	96,857
TOTAL ASSETS	$ 17,984,494	$ 18,131,864

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

LIABILITIES AND NET ASSETS	June 30, 2021	June 30, 2020
CURRENT LIABILITIES		
Current portion of Paycheck Protection Program note payable	$ -	$ 685,491
Current portion of bonds payable	165,000	160,000
Accounts payable and accrued expenses	835,432	297,991
Accrued payroll and benefits	1,044,014	818,239
Accrued compensated absences	157,118	140,629
Deferred revenue	-	2,503
TOTAL CURRENT LIABILITIES	2,201,564	2,104,853
OTHER LIABILITIES		
Paycheck Protection Program note payable, net of current portion	-	872,815
Bonds payable, net of unamortized bond issuance costs of $687,621 and $713,088 and net of current portion	7,713,962	7,858,924
	7,713,962	8,731,739
TOTAL LIABILITIES	9,915,526	10,836,592
NET ASSETS		
Without donor restrictions - board designated reserve	227,927	227,492
Without donor restrictions - undesignated	7,836,435	7,063,174
With donor restrictions	4,606	4,606
TOTAL NET ASSETS	8,068,968	7,295,272
TOTAL LIABILITIES AND NET ASSETS	$ 17,984,494	$ 18,131,864

PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	Year ended June 30,			
	2021			2020
	Without donor restrictions	With donor restrictions	Total	Total
Revenue and support:				
Student enrollment fees	$ 11,588,766	-	$ 11,588,766	$ 11,333,220
Federal grants	1,180,017	-	1,180,017	782,737
Public support	19,921	-	19,921	31,442
Investment income	7,146	-	7,146	131,831
Paycheck Protection Program grant income	1,178,306	-	1,178,306	380,000
Other income	13,296	-	13,296	38,281
In-kind contributions	635,072	-	635,072	638,706
TOTAL OPERATING REVENUE AND SUPPORT	14,622,524	-	14,622,524	13,336,217
Expenses:				
Program services:				
Educational services	12,283,660	-	12,283,660	11,411,292
Bronx Support Corporation	338,427	-	338,427	-
BLCS Property Holding Company	-	-	-	288
Management and general	1,226,741	-	1,226,741	1,905,701
TOTAL EXPENSES	13,848,828	-	13,848,828	13,317,281
CHANGE IN NET ASSETS	773,696	-	773,696	18,936
Net assets at beginning of year	7,290,666	4,606	7,295,272	7,276,336
NET ASSETS AT END OF YEAR	$ 8,064,362	$ 4,606	$ 8,068,968	$ 7,295,272

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

PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	Year ended June 30,						
	2021						2020
	Program Services						
	Educational Services	Bronx Support Corporation	BLCS Property Holding Company, Inc.	Sub-total	Management and General	Total	Total
Personnel services costs:							
Salaries	$ 6,670,682	$ -	$ -	$ 6,670,682	$ 598,298	$ 7,268,980	$ 6,808,600
Payroll taxes and fringe benefits	1,290,954	-	-	1,290,954	136,102	1,427,056	1,272,176
Total salaries and wages	7,961,636	-	-	7,961,636	734,400	8,696,036	8,080,776
Professional fees and consultants	572,224	7,179	-	579,402	61,884	641,286	237,389
Management fees	36,389	-	-	36,389	18,194	54,583	586,392
Contracted services - other	648,084	-	-	648,084	72,009	720,093	691,934
Supplies and equipment purchases	561,353	-	-	561,353	-	561,353	627,562
Insurance	-	-	-	-	153,410	153,410	170,779
Library	31,777	-	-	31,777	-	31,777	67,773
Repairs and maintenance	427,359	-	-	427,359	45,707	473,066	347,873
Printing	36,599	-	-	36,599	4,067	40,666	60,817
Staff development and recruitment	382,721	-	-	382,721	42,525	425,246	309,352
Telecommunications	44,673	-	-	44,673	4,964	49,637	150,775
Field trips and other activities	138,265	-	-	138,265	-	138,265	83,788
Utilities	155,281	-	-	155,281	16,874	172,155	181,161
In-kind contribution - facility	526,500	-	-	526,500	58,500	585,000	585,000
In-kind contribution - textbooks	50,072	-	-	50,072	-	50,072	53,706
Interest	217,269	217,269	-	434,538	-	434,538	440,536
Depreciation and amortization	367,155	113,980	-	481,134	-	481,134	439,283
Other	126,304	-	-	126,304	14,207	140,511	202,385
	$ 12,283,660	$ 338,427	$ -	$ 12,622,087	$ 1,226,741	$ 13,848,828	$ 13,317,281

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

PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	Year ended June 30, 2021	Year ended June 30, 2020
CASH FLOWS - OPERATING ACTIVITIES		
Change in net assets	$ 773,696	$ 18,936
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation and amortization	481,134	439,283
Amortization of bond issuance costs included in interest expense	25,467	25,466
Bond premium amortization	(5,429)	(5,429)
Forgiveness of Paycheck Protection Program note payable	(1,558,306)	-
Realized and unrealized gain on investments	(35,952)	(68,000)
Bad debt expense	-	18,548
Changes in certain assets and liabilities affecting operations:		
Grants and contracts receivable	(418,094)	(115,313)
Prepaid expenses	(40,355)	80,463
Anticipated loan forgiveness	380,000	(380,000)
Deposits	(21,960)	-
Accounts payable and accrued expenses	286,141	(38,481)
Accrued payroll and benefits	225,775	40,528
Accrued compensated absences	16,489	31,663
Deferred revenue	(2,503)	(180,914)
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	106,103	(133,250)
CASH FLOWS - INVESTING ACTIVITIES		
Purchases of property and equipment	(505,709)	-
Proceeds from sale of investments	-	4,148,035
Purchase of investments	-	(4,970,460)
NET CASH USED FOR INVESTING ACTIVITIES	(505,709)	(822,425)
CASH FLOWS - FINANCING ACTIVITIES		
Repayment of bonds payable	(160,000)	(150,000)
Borrowings on Paycheck Protection Program note payable	-	1,558,306
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(160,000)	1,408,306
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(559,606)	452,631
Cash, cash equivalents and restricted cash at beginning of year	4,296,782	3,844,151
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	$ 3,737,176	$ 4,296,782

PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2021
(With Comparative Totals for 2020)

	Year ended June 30, 2021	Year ended June 30, 2020
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 and cash equivalents	$ 3,666,119	$ 4,225,850
Cash in escrow	71,057	70,932
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 3,737,176	$ 4,296,782
Cash paid during the year for interest	$ 414,500	$ 420,499
NON-CASH OPERATING AND INVESTING ACTIVITIES		
Purchases of property and equipment included in accounts payable	$ 251,300	$ -

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

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

The Organization

Pharos Academy Charter School ("Charter School"), a New York not-for-profit education corporation, together with its wholly owned subsidiaries, BLCS Property Holding Company, Inc. ("BPHC"), 1005 Intervale Avenue LLC (the "Company"), Bronx Support Corporation (the "Corporation"), (collectively, the "Organization"), offers education services in classes from kindergarten through grade twelve in the Bronx, New York. The Charter School is a public charter school incorporated on May 18, 2004, pursuant to the New York Charter School Act of 1998. In March 2014, the Charter School was granted a second charter renewal through June 30, 2019 by the Chancellor of the City of New York on behalf of the New York State Education Department. The Charter was subsequently extended to June 30, 2022.

The Charter School is the sole owner of BPHC, a Delaware not-for-profit corporation, which was incorporated on March 16, 2011, for the purpose of holding real estate to be used by the Charter School's college preparatory academy. The Charter School is in the process of dissolving BPHC and has contributed substantially all of its assets totaling $481,119 to the Charter School during the year ended June 30, 2021.

The Charter School was also the sole member of 1005 Intervale Avenue LLC, a limited liability company organized and existing under the law of the State of New York which was formed on April 12, 2018. The purpose of the Company is to further the educational and charitable purposes of the School and to engage in any lawful act, business or activities pursuant to the New York Law. On October 12, 2018, the Company obtained financing to refinance the loans of BPHC. See Note K.

Bronx Support Corporation is a not for profit organization incorporated in New York on May 15, 2018, for charitable purposes, specifically to engage in programs and activities to assist Pharos Academy Charter School. In September 2020, the Board of Trustees approved a resolution approving the transfer of the sole membership interest in 1005 Intervale Avenue LLC from Pharos Academy Charter School to Bronx Support Corporation. The transfer was executed in January 2021 in connection with the Build NYC Resource Corporation Revenue Bonds described in Note K.

Effective July 1, 2020, the Charter School amended its charter and changed its name to Pharos Academy Charter School. The Charter School was previously named Bronx Lighthouse Charter School.

Basis of accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation

The consolidated financial statements reflect the accounts and operations of the Charter School and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

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

Classification of net assets
To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization 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 Organization.

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 Organization had net assets with donor restrictions of $4,606 at both June 30, 2021 and 2020.

Revenue recognition
Revenue from Exchange Transactions: The Organization 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 Organization records substantially all revenues over time as follows:

State and local per pupil revenue
The Organization recognizes revenue as educational programming is provided to students throughout the year. The Organization earns state and local per pupil 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 Organization 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 Organization to each student, subject to a maximum amount based upon a set rate for each district as calculated by NYSED.

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

Contract assets consisted of grants and contracts receivable of $17,334 at June 30, 2021. There were no contract balances at June 30, 2020, or 2019.

Contributions

The Organization 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 consolidated statement of activities and changes in net assets as net assets released from restrictions.

Grant revenue

Some of the Organization'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 Organization 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 consolidated statement of financial position. There were no amounts received prior to incurring qualifying expenditures, which is reported as deferred revenue in the accompanying consolidated statement of financial position at June 30, 2021. There was $2,503 received prior to incurring qualifying expenditures, which is reported as deferred revenue in the accompanying consolidated statement of financial position at June 30, 2020. The Organization received cost-reimbursement grants of approximately $54,620 and $113,586 that have not been recognized at June 30, 2021 and 2020, respectively because qualifying expenditures had not yet been incurred.

Cash and cash equivalents

Cash balances are maintained at financial institutions located in New York and are insured by the Federal Deposit Insurance Corporation up to $250,000 at each institution. Cash equivalents include all highly liquid investments with maturities of three months or less when acquired. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

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

Cash in escrow
The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was $71,057 and $70,932 at June 30, 2021 and 2020, respectively. The agreement requires a balance of $70,000 be maintained to fund any audit and legal expenses incurred should the Charter School cease operations and dissolve.

Investments
Investments are carried at fair value. Net appreciation (depreciation) in the fair value of investments, which includes realized and unrealized gains and losses on those investments, is reported in the consolidated statements of activities as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by the law. Cost basis is determined on the date of purchase. Due to the level of risk associated with certain investment securities and the level of uncertainly related to the changes in the value of investment securities, it is at least possible that changes in risk in the near term could materially affect investment balances.

Grants and contracts receivable
Grants and contracts receivable 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, 2021 and 2020.

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 three to ten years. Building and building improvements are being depreciated over 39 years. Leasehold improvements are being amortized over the term of the lease. It is the Organization's policy to capitalize property, plant, equipment and leasehold improvements in excess of $5,000 on a per unit basis.

Anticipated loan forgiveness
As further discussed in Note L, the Organization has applied for and received a loan through the Paycheck Protection Program. For the years ended June 30, 2021 and 2020, the Organization has recognized revenue of approximately $1,178,306 and $380,000, respectively, which is supported by qualified expenses incurred to date and is recognized as Paycheck Protection Program grant income on the accompanying consolidated statement of activities and changes in net assets. $380,000 was recognized as anticipated loan forgiveness on the accompanying consolidated statement of financial position at June 30, 2020. The Organization met the requirements for forgiveness and in April 2021 the full amount of the loan was forgiven.

Bond issuance costs
Bond issuance costs, which consist of deferred financing charges, are stated at cost and are amortized over the term of the bonds through various dates up to June 2048. The Organization shows bond issuance costs as a deduction from the carrying amount of bonds payable, net on the accompanying consolidated statement of financial position.

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

Deferred revenue

The Organization records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue. There was no deferred revenue at June 30, 2021. There was $2,503 of deferred revenue at June 30, 2020.

Deferred lease asset (liability)

1005 Intervale Avenue LLC owns a facility that it leases to the Charter School. The lease contains pre-determined fluctuations of the base rent. In accordance with GAAP, the Charter School recognizes the related rent expense on a straight-line basis and records the excess of the amounts paid under the lease over the recognized rental expense as a deferred lease asset. The Company recognizes the related rental income on a straight-line basis and records the excess of the amounts received under the lease over the recognized rental income as a deferred lease liability. The related deferred lease asset and deferred lease liability are eliminated on the consolidated statement of financial position. See Note I for further explanation.

Contributed services

The Organization receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the consolidated financial statements.

Tax exempt status

The Charter School, BPHC, and Bronx Support Corporation are tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, are exempt from federal and state taxes on income.

The Charter School, BPHC, and Bronx Support Corporation file Form 990 tax returns in the U.S. federal jurisdiction. In addition, BPHC and Bronx Support Corporation file a Form CHAR 500 in New York State. The LLC is a single member LLC and is disregarded for tax purposes. The tax returns for the years ended June 30, 2018 through June 30, 2021 are still subject to potential audit by the IRS. Management of the Charter School, BPHC, and Bronx Support Corporation believe they have no material uncertain tax positions and, accordingly will not recognize any liability for unrecognized tax benefits.

Marketing costs

The Organization expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated $425,000 and $309,000 for the years ended June 30, 2021 and 2020, respectively.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. The value of in-kind contributions received for the years ended June 30, 2021 and 2020 were $50,072 and $53,706, respectively.

In addition, NYC DOE donates space for the Charter School for the purpose set forth in the Charter. The agreement commenced on July 1, 2005 and terminates in one year or upon the expiration/termination of the Charter School's charter, or expiration / termination of the lease in the event that the Charter School is located in a leased premise, whichever is earlier. The agreement may be extended by a written agreement signed by the parties. The annual fee for the use of dedicated space is $1. The fair market value for the use of the space was $585,000 in each of the years ended June 30, 2021 and 2020.

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

Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated 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 consolidated 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, 2020

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2020, from which the summarized information was derived.

New accounting pronouncements

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 consolidated statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the guidance in this new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. For non-public 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 for interim periods within fiscal years beginning after December 15, 2022. The Organization is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Organization's financial position or results of operations.

Gifts-in-kind

In September 2020, the FASB issued a new accounting update to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind. The update requires not-for-profit entities to present contributed nonfinancial assets separately on the statement of activities, apart from contributions of cash and other financial assets. In addition, the update requires not-for-profit entities to disclose in the notes to the financial statements a breakout of the different types of gifts-in-kind recognized, any donor restrictions associated with the gift, the valuation technique(s) used to arrive at the fair value measure, whether or not the gift-in-kind was monetized, and any policies on monetization. The update is effective for fiscal years beginning after June 15, 2021 and will be applied on a retrospective basis. The Organization is currently evaluating the provisions of this update to determine the impact it will have on the Organization's consolidated financial statements.

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

Reclassifications

Certain prior year amounts have been reclassified to conform with the present year presentation.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 20, 2021, which is the date the consolidated financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization's main sources of liquidity are its cash and cash equivalents accounts, investments and accounts receivable.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization 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 Organization operates with a surplus budget and 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 consolidated statement of financial position date, comprise the following at June 30, 2021 and 2020:

	June 30,	
	2021	2020
Cash and cash equivalents	$ 3,666,119	$ 4,225,850
Investments	2,543,008	2,507,056
Grants and contracts receivable	825,605	407,511
Total financial assets available to management	7,034,732	7,140,417
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted cash	(879,701)	(811,901)
Restricted by donors with purpose restrictions	(4,606)	(4,606)
Total financial assets available to management for general expenditures within one year	$ 6,150,425	$ 6,323,910

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30, 2021	June 30, 2020
Undesignated	$ 4,994,227	$ 4,636,803
Designated by the Board for reserve	227,927	227,492
Invested in property and equipment, net of related liabilities	2,842,208	2,426,371
	$ 8,064,362	$ 7,290,666

Net assets with donor restrictions are as follows:

	June 30, 2021	June 30, 2020
Julio Lopez Scholarship Fund	$ 1,061	$ 1,061
Roberto Granado Scholarship Fund	3,545	3,545
	$ 4,606	$ 4,606

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30, 2021	June 30, 2020
Furniture and equipment	$ 3,063,135	$ 2,332,311
Land	1,560,000	1,560,000
Building and building improvements	8,890,419	8,890,419
Construction in progress	26,185	-
	13,539,739	12,782,730
Less: accumulated depreciation and amortization	2,818,569	2,337,435
	$ 10,721,170	$ 10,445,295

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was $481,134 and $439,283, respectively.

At June 30, 2021, a portion of the Organization's property and equipment was in progress. Construction in progress is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are complete and put into use.

NOTE E: 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 Organization. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying consolidated financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE F: CONCENTRATIONS

At June 30, 2021 and 2020, approximately 95% and 90% of receivables are due from federal agencies related to certain grant programs.

For the years ended June 30, 2021 and 2020, approximately 79% and 85% of total operating revenue and support came from per-pupil funding provided by New York State through the New York City School District, respectively. 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 G: RETIREMENT PLAN

The Charter School has a 401(k) Plan for employees who are at least 21 years old and have completed one month of service. Effective July 1, 2010, the Charter School amended its plan to require safe harbor employer matching 100% of employee contributions not to exceed 4% of compensation. Safe harbor contributions are immediately vested with the participants. For the years ended June 30, 2021 and 2020, the School made a safe harbor matching employer contribution of $111,663 and $114,203, respectively. For the years ended June 30, 2021 and 2020, the Charter School did not make a discretionary contribution. Employer profit sharing contributions made to the plan are fully vested in three years.

NOTE H: MANAGEMENT FEES

On August 8, 2019, the Charter School renewed its agreement with Lighthouse Academies Inc. ("LHA"), for LHA to provide management services to the Charter School for an annual fee of $595,000 through June 30, 2020. This agreement was not renewed. The management fee for the years ended June 30, 2021 and 2020 were $54,583 and $586,392, respectively.

NOTE I: RELATED PARTY TRANSACTIONS

During 2018, the Charter School entered into a sublease agreement with 1005 Intervale Avenue LLC for property located at 1005 Intervale Avenue, Bronx NY, commencing on the date of January 5, 2019. The thirty-year lease calls for rent based on a fixed rent schedule provided in the sublease agreement. The Charter School has the option to renew the lease for 2 five-year terms at the end of the initial lease term. Rent paid to 1005 Intervale Avenue LLC under the terms of this agreement was approximately $643,000 and $639,000 for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021 and 2020 a deferred lease asset of $58,961 and $58,587, respectively is included in the accompanying consolidating statement of financial position of the Charter School. At June 30, 2021 and 2020 a deferred lease liability of $58,961 and $58,587, respectively is included in the accompanying consolidating statement of financial position of the Corporation. Rent expense and rental income for both years ended June 30, 2021 and 2020 was $642,876. The deferred lease asset and liability as well as rental income and expense are eliminated in consolidation.

The future minimum rental payments due to 1005 Intervale Avenue LLC required under this sublease agreement (which will be eliminated in future years) are approximately as follows, which equate to the Charter School's future minimum payments on this agreement through June 2048:

Year ending June 30,	Amount
2022	$ 641,850
2023	640,250
2024	638,450
2025	641,450
2026	639,050
Thereafter	14,097,650
	$ 17,298,700

NOTE J: FUNCTIONAL EXPENSES

The consolidated 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. Expenses that can be identified with a specific program are charged directly to the particular program.

NOTE K: BONDS PAYABLE

On October 12, 2018, 1005 Interval Ave LLC obtained financing of $8,825,000 from Build NYC Resource Corporation ("Build NYC"), a local development corporation of the City of New York, to refinance loans outstanding with LIIF SUB-CDE VI, LLC (a lender under the Federal New Markets Tax Credit program). In order to facilitate the refinancing, the Build NYC issued Revenue Bonds, Series 2018; $8,825,000 to repay the loans and pay issuance costs.

The bonds which require periodic payments bear interest ranging from 4% to 5% and are secured by the building. Bonds payable consist of the following at June 30, 2021 and 2020:

	June 30, 2021	June 30, 2020
Revenue Bonds Series 2018, interest ranging from 4%-5%, due June 1, 2019 through 2028, June 1, 2033, 2038 and 2048	$ 8,420,000	$ 8,580,000
Add: unamortized bond premium	146,583	152,012
Less: debt issuance cost, net of accumulated amortization	(687,621)	(713,088)
	7,878,962	8,018,924
Less: current portion of bonds payable	(165,000)	(160,000)
	$ 7,713,962	$ 7,858,924

The bonds principals maturing on or after June 1, 2025 are subject to optional redemptions by the Corporation prior to maturity. Bonds maturing in 2033, 2038 and 2048 require mandatory redemptions.

Unamortized premium costs relating to the issuance of the Series 2018 bond are $146,583 and $152,012 at June 30, 2021 and 2020, respectively. The unamortized premium costs are amortized over the term of the indebtedness of the total amount issued and included in bonds payable in the consolidated statements of financial position. Debt issuance costs, net of accumulated amortization total $687,621 and $713,088 as of June 30, 2021 and 2020, respectively, are recorded as reduction in bonds payable on the accompanying consolidated statement of financial position.

NOTE K: BONDS PAYABLE, Cont'd

Debt issuance costs consist of the following:

	June 30, 2021	June 30, 2020
Debt issuance costs	$ 809,299	$ 809,299
Less: accumulated amortization	121,678	96,211
	$ 687,621	$ 713,088

The aggregate amount of principal payments subsequent to June 30, 2021 are as follows:

Years Ending June 30,	Amount
2022	$ 165,000
2023	170,000
2024	175,000
2025	185,000
2026	190,000
Thereafter	7,535,000
	$ 8,420,000

Interest expense on the Series 2018 for the years ended June 30, 2021 and 2020 was $414,500 and $420,499, respectively.

In connection with the bonds payable, the Charter School is required to maintain certain financial covenants. At June 30, 2021, the Charter School was in compliance with these covenants.

NOTE L: PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

In response to the COVID-19 outbreak, in April 2020 the Organization applied for and was approved by a bank for a loan of $1,558,306 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 Organization. The loan was funded in May 2020. The Organization met the requirements for forgiveness and in April 2021 the full amount of the loan was forgiven.

NOTE M: RESTRICTED CASH

Restricted cash includes amounts the Organization is required to segregate in connection with the issuance of the Revenue Bonds, Series 2018, described in Note K and other purposes. As of June 30, 2021 and 2020, restricted cash consists of the following:

	June 30, 2021	June 30, 2020
(A) Facility reserve	$ 31	$ 31
(B) Lease reserve	156,870	156,560
(C) Revenue account	39,208	77,208
(D) Expense fund	9,092	3,602
(E) Repair fund	100,000	-
(F) Debt services reserve fund	574,500	574,500
	$ 879,701	$ 811,901

(A) The Organization has created a facility reserve for future major repairs and replacement to the building.

(B) The Organization is required to deposit $1,089 per month into a contingency fund to serve as a reserve for its lease payments.

(C) The revenue account fund was created for the purpose of receiving money from the Organization to pay bond obligations.

(D) The expense fund was created for the purpose of paying annual fees to the bond issuer and rating agency.

(E) The repair fund was created for the purpose of paying the cost of extraordinary maintenance and replacements which may be required to keep the facility in sound condition.

(F) The Organization is required to set aside a debt service fund to secure payments of the bond offering.

NOTE N: FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

Fixed Income – US treasuries: Investments are valued at the closing price reported in the active market in which they are traded.

NOTE N: FAIR VALUE MEASUREMENTS, Cont'd

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value as of June 30, 2021 and 2020:

	Assets at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Fixed Income				
US Treasuries	$ -	$ 2,543,008	$ -	$ 2,543,008
Total assets at fair value	$ -	$ 2,543,008	$ -	$ 2,543,008

	Assets at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Fixed Income				
US Treasuries	$ -	$ 2,507,056	$ -	$ 2,507,056
Total assets at fair value	$ -	$ 2,507,056	$ -	$ 2,507,056

NOTE O: 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 beyond its point of origin. 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 Organization'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 Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.

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 Organization has recognized $345,397 of revenue relative to ESSER grants during the year ended June 30, 2021.

NOTE P: RENEWAL PROCESS

The Charter School is currently in the process of renewing its charter as granted by the New York State Board of Regents. The Charter currently expires June 30, 2022. The renewal process includes review by Chancellor of the City of New York on behalf of the New York State Education Department of various operational and governance aspects, including fiscal health and internal controls, board governance, and academic performance. The Charter School has been invited to submit its application for renewal. Upon review of the application and results, Chancellor of the City of New York on behalf of the New York State Education Department will determine if the charter should be renewed and if so, for how long. Successful charter renewals can range from one to five years. At this time, management of the Charter School expects the charter to be renewed.

PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

OTHER CONSOLIDATING FINANCIAL INFORMATION

MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING FINANCIAL INFORMATION

Board of Trustees
Pharos Academy Charter School and Affiliates

We have audited the consolidated financial statements of Pharos Academy Charter School and Affiliates as of and for the year ended June 30, 2021, and we have issued our report thereon dated October 20, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2021 consolidating financial information hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements for the year ended June 30, 2021, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 20, 2021

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PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

ASSETS	Pharos Academy Charter School	Bronx Support Corporation	BLCS Property Holding Company, Inc	Pre-Consolidated Total	Consolidating Eliminations	Consolidated Total
CURRENT ASSETS						
Cash and cash equivalents	$ 2,943,285	$ 722,800	$ 34	$ 3,666,119	$ -	$ 3,666,119
Investments	2,543,008	-	-	2,543,008	-	2,543,008
Grant and contracts receivables	825,605	-	-	825,605	-	825,605
Prepaid expenses	109,650	-	-	109,650	-	109,650
TOTAL CURRENT ASSETS	6,421,548	722,800	34	7,144,382	-	7,144,382
PROPERTY AND EQUIPMENT, NET	897,639	9,823,531	-	10,721,170	-	10,721,170
OTHER ASSETS						
Due from affiliates	2,804,308	-	57,138	2,861,446	(2,861,446)	-
Deposits	47,885	-	-	47,885	-	47,885
Deferred lease asset	58,961	-	-	58,961	(58,961)	-
Cash in escrow	71,057	-	-	71,057	-	71,057
TOTAL ASSETS	$ 10,301,398	$ 10,546,331	$ 57,172	$ 20,904,901	$ (2,920,407)	$ 17,984,494
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Current portion of bonds payable	$ -	$ 165,000	$ -	$ 165,000	$ -	$ 165,000
Accounts payable and accrued expenses	800,396	35,036	-	835,432	-	835,432
Accrued payroll and benefits	1,044,014	-	-	1,044,014	-	1,044,014
Accrued compensated absences	157,118	-	-	157,118	-	157,118
Due to affiliates	57,138	2,804,308	-	2,861,446	(2,861,446)	-
TOTAL CURRENT LIABILITIES	2,058,666	3,004,344	-	5,063,010	(2,861,446)	2,201,564
OTHER LIABILITIES						
Bonds payable	-	7,713,962	-	7,713,962	-	7,713,962
Deferred lease liability	-	58,961	-	58,961	(58,961)	-
	-	7,772,923	-	7,772,923	(58,961)	7,713,962
TOTAL LIABILITIES	2,058,666	10,777,267	-	12,835,933	(2,920,407)	9,915,526
NET ASSETS						
Without donor restrictions - board designated reserve	227,927	-	-	227,927	-	227,927
Without donor restrictions - undesignated	8,010,199	(230,936)	57,172	7,836,435	-	7,836,435
With donor restrictions	4,606	-	-	4,606	-	4,606
TOTAL NET ASSETS	8,242,732	(230,936)	57,172	8,068,968	-	8,068,968
TOTAL LIABILITIES AND NET ASSETS	$ 10,301,398	$ 10,546,331	$ 57,172	$ 20,904,901	$ (2,920,407)	$ 17,984,494

PHAROS ACADEMY CHARTER SCHOOL AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2021

	Pharos Academy Charter School	Bronx Support Corporation	BLCS Property Holding Company, Inc	Pre-Consolidated Total	Consolidating Eliminations	Consolidated Total
Revenue and support:						
Student enrollment fees	$ 11,588,766	$ -	$ -	$ 11,588,766	$ -	$ 11,588,766
Federal grants	1,180,017	-	-	1,180,017	-	1,180,017
Public support	19,921	-	-	19,921	-	19,921
Investment income	6,335	-	811	7,146	-	7,146
Paycheck Protection Program grant income	1,178,306	-	-	1,178,306	-	1,178,306
Rental income	321,438	321,438	-	642,876	(642,876)	-
Contribution income	498,108	-	-	498,108	(498,108)	-
Other income	13,296	-	-	13,296	-	13,296
In-kind contributions	635,072	-	-	635,072	-	635,072
TOTAL OPERATING REVENUE AND SUPPORT	15,441,259	321,438	811	15,763,508	(1,140,984)	14,622,524
Expenses:						
Program services:						
Educational services	12,926,536	-	-	12,926,536	(642,876)	12,283,660
Bronx Support Corporation	-	355,416	-	355,416	(16,989)	338,427
BLCS Property Holding Company	-	-	481,119	481,119	(481,119)	-
Management and general	1,226,741	-	-	1,226,741	-	1,226,741
TOTAL EXPENSES	14,153,277	355,416	481,119	14,989,812	(1,140,984)	13,848,828
CHANGE IN NET ASSETS	$ 1,287,982	$ (33,978)	(480,308)	773,696	-	773,696
Net assets (deficit) at beginning of year	6,954,750	(196,958)	537,480	7,295,272	-	7,295,272
NET ASSETS (DEFICIT) AT END OF YEAR	$ 8,242,732	$ (230,936)	$ 57,172	$ 8,068,968	$ -	$ 8,068,968