

**The Harbor Science and
Arts Charter School**

Financial Statements
Years Ended June 30, 2008 and 2007

The Harbor Science and Arts Charter School

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Independent Auditors' Report

To the Board of Directors
The Harbor Science and Arts Charter School

We have audited the accompanying statements of financial position of The Harbor Science and Arts Charter School (the "School") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Harbor Science and Arts Charter School as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

October 31, 2008

The Harbor Science and Arts Charter School

Statements of Financial Position

<i>June 30,</i>	2008	2007
Assets		
Cash	\$ 39,480	\$ 4,126
Accounts receivable	106,910	111,029
Fixed assets, net (Note 5)	46,839	52,253
	\$ 193,229	\$ 167,408
Liabilities and Net Assets (Deficit)		
Liabilities:		
Accounts payable	\$ 16,283	\$ 4,321
Due to related party (Note 4)	142,296	86,645
Accrued payroll and related liabilities	94,394	87,336
Reimbursement advances	14,462	31,813
Deferred revenue (Note 6)	64,229	64,229
Total liabilities	331,664	274,344
Unrestricted net asset deficit (Note 2)	(138,435)	(106,936)
	\$ 193,229	\$ 167,408

See accompanying notes to financial statements.

The Harbor Science and Arts Charter School

Statements of Activities (unrestricted)

<i>Year ended June 30,</i>	2008	2007
Support and revenue:		
Revenue from public school district	\$2,321,366	\$2,151,681
Government grant revenue (Note 6)	210,006	227,200
Foundation and corporate contributions	98,891	32,348
Total support and revenue	2,630,263	2,411,229
Expenses:		
Program services:		
Salaries	1,651,613	1,591,598
Fringe benefits and payroll taxes	383,674	399,143
Rent and utilities	99,996	100,000
Program supplies	83,414	64,487
Food	104,401	74,030
Repairs and maintenance	5,276	6,905
Insurance	15,000	12,819
Housekeeping supplies	2,798	4,281
Transportation services	7,068	4,810
Professional fees	156,769	48,407
Equipment rental	17,120	18,535
Telephone	5,043	6,958
Stipends	6,240	7,494
Office expense	14,543	11,543
Equipment expense	5,068	1,125
Advertising/seminars/workshops	1,917	325
Miscellaneous	10,303	15,298
	2,570,243	2,367,758
Management and general:		
Administrative services	48,000	48,000
Accounting and audit fees	25,000	30,200
Depreciation expense	18,519	14,401
	91,519	92,601
Total expenses	2,661,762	2,460,359
Deficiency of support and revenue over expenses	(31,499)	(49,130)
Net asset deficit, beginning of year	(106,936)	(57,806)
Net asset deficit, end of year	\$ (138,435)	\$ (106,936)

See accompanying notes to financial statements.

The Harbor Science and Arts Charter School

Statements of Cash Flows

<i>Year ended June 30,</i>	2008	2007
Cash flows from operating activities:		
Deficiency of support and revenue over expenses	\$ (31,499)	\$(49,130)
Adjustments to reconcile deficiency of support and revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation	18,519	14,401
Changes in operating assets and liabilities:		
Decrease in:		
Accounts receivable	4,119	11,592
Increase (decrease) in:		
Accounts payable	11,962	(5,345)
Accrued payroll and related liabilities	7,058	10,765
Due to related party	55,651	(17,573)
Reimbursement advances	(17,351)	(9,506)
Net cash provided by (used in) operating activities	48,459	(44,796)
Cash flows from investing activities:		
Purchases of fixed assets	(13,105)	(31,435)
Net increase (decrease) in cash	35,354	(76,231)
Cash, beginning of year	4,126	80,357
Cash, end of year	\$ 39,480	\$ 4,126

See accompanying notes to financial statements.

The Harbor Science and Arts Charter School

Notes to Financial Statements

1. **Nature of Organization**

The Harbor Science and Arts Charter School (the "School") is a non-profit organization formed in 2000 to operate a charter school pursuant to Article 56 of the Education Law. The School is committed to creating an environment where students and adults are engaged in the learning process and work cooperatively on "real world" problems.

2. **Summary of Significant Accounting Policies**
 - (a) *General*

The financial statements have been prepared on an accrual basis. In the statement of financial position, assets are presented in order of liquidity or conversion to cash and liabilities are presented according to their maturity resulting in the use of cash.

 - (b) *Financial Statement Presentation*

The classification of an organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The classes of net assets are defined as follows:

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

The Harbor Science and Arts Charter School

Notes to Financial Statements

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) *Property and Equipment*

Property and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets for financial reporting as follows:

Equipment	3-5 years
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(d) *Third-party Reimbursement and Revenue Recognition*

The School receives substantially all its revenue for services provided to approved participants from third-party reimbursement agencies, primarily the Board of Education of the City of New York. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary.

(e) *Contributions and Promises to Give*

Contributions and promises to give are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. Contributions and promises to give are classified as either unrestricted, temporarily restricted, or permanently restricted support.

The Harbor Science and Arts Charter School

Notes to Financial Statements

Contributions of property and equipment are recorded at the fair market value of the property and equipment at the time of contribution.

(f) *Income Taxes*

The School is a charitable organization that is exempt from Federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and therefore has made no provision for income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for 2008 and 2007.

(g) *Use of Estimates*

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(h) *Concentration of Credit Risk*

Financial instruments which potentially subject the School to concentration of credit risk consist primarily of cash and cash equivalents. At various times, the School has cash deposits at financial institutions, which exceed the FDIC insurance limits.

3. Expenditures Per Pupil	Year ended June 30,	
	2008	2007
Total direct expenditures	\$2,570,243	\$2,367,758
Total full-time equivalent school enrollment	210	212
Expenditures per pupil	\$ 12,239	\$11,168

The Harbor Science and Arts Charter School

Notes to Financial Statements

4. **Related Party** The School is related to Boys and Girls Harbor, Inc. (the "Harbor") through common management. The Harbor collects contributions for the School and also pays for certain operating expenses on behalf of the School. These amounts are periodically reimbursed by the School. The Harbor also performs certain administrative and accounting functions for the School. In return for these services, the School paid \$48,000 and \$48,000 to the Harbor during the years ended June 30, 2008 and 2007, respectively. Amount due to the Harbor at June 30, 2008 and 2007 was \$142,296 and \$86,645, respectively.

5. **Fixed Assets, Net** Fixed assets, stated at cost, consist of the following:

<i>June 30,</i>	2008	2007
Computer equipment	\$123,926	\$110,821
Accumulated depreciation	(77,087)	(58,568)
Fixed assets, net	\$ 46,839	\$ 52,253

6. **Deferred Revenue** This amount represents a grant received from government agency for construction of new facilities. In 2004, the School received verbal notification from the granting agency approving the usage of these funds for the feasibility study. The remainder of the funds will be recognized as income once they are used for the intended purpose. As of June 30, 2008, the funds have not been used for their intended purpose.

**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**

To the Board of Directors
The Harbor Science and Arts Charter School

We have audited the financial statements of The Harbor Science and Arts Charter School (the "School") as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 31, 2008. We conducted our audits 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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*.

This report is intended solely for the information and use of management, the audit committee, others within the School, the Charter Schools Institute of the State University of New York and the State Education Department of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountants

New York, New York

October 31, 2008