

The Harbor Science and Arts Charter School

Financial Statements
Years Ended June 30, 2013 and 2012

**The Harbor Science and Arts
Charter School**

Financial Statements
Years Ended June 30, 2013 and 2012

The Harbor Science and Arts Charter School

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Harbor Science and Arts Charter School (the "School"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years 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 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 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 The Harbor Science and Arts Charter School as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the School's 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 the School's internal control over financial reporting and compliance.

BDO USA, LLP

November 1, 2013

The Harbor Science and Arts Charter School

Statements of Financial Position

<i>June 30,</i>	2013	2012
Assets		
Cash	\$359,279	\$430,254
Accounts receivable	73,668	94,477
Prepaid expenses	96,402	-
Fixed assets, net (Note 3)	10,651	14,358
	\$540,000	\$539,089
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$128,632	\$ 87,777
Accrued payroll and related liabilities (Note 6)	274,593	73,127
Due to related party (Note 4)	-	84,781
Total Liabilities	403,225	245,685
Net Assets:		
Unrestricted	136,775	293,404
	\$540,000	\$539,089

See accompanying notes to financial statements.

The Harbor Science and Arts Charter School

Statements of Activities (Unrestricted)

<i>Year ended June 30,</i>	2013	2012
Support and Revenue:		
Revenue from public school district	\$3,392,078	\$3,228,453
Government grant revenue	371,258	487,587
Donated services	47,461	131,415
Foundation and corporate contributions	17,150	5,000
Special events revenue, net of \$6,146 and \$2,662 of direct benefit costs to donors for the years ended June 30, 2013 and 2012, respectively	15,616	10,645
Other income	370	1,951
Total Support and Revenue	3,843,933	3,865,051
Expenses:		
Program services:		
Salaries	2,482,986	2,284,177
Fringe benefits and payroll taxes	555,846	559,936
Rent and utilities	234,152	206,524
Program supplies	50,356	68,221
Food	142,800	114,107
Repairs and maintenance	2,918	5,640
Insurance	26,699	18,605
Housekeeping supplies	4,896	10,135
Transportation services	-	10,920
Professional fees	178,593	334,494
Equipment rental	33,895	32,749
Telephone	4,137	5,139
Scholarships	-	3,000
Stipends	-	7,180
Office expense	24,230	16,842
Equipment expense	34,860	7,353
Advertising/seminars/workshops	75	4,530
Miscellaneous	4,482	20,064
	3,780,925	3,709,616
Management and general:		
Administrative services	178,593	139,893
Accounting and audit fees	37,337	23,939
Depreciation expense	3,707	13,000
	219,637	176,832
Total Expenses	4,000,562	3,886,448
Deficiency of Support and Revenue Over Expenses	(156,629)	(21,397)
Net Assets, Beginning of Year	293,404	314,801
Net Assets, End of Year	\$ 136,775	\$ 293,404

See accompanying notes to financial statements.

The Harbor Science and Arts Charter School

Statement of Cash Flows

<i>Year ended June 30,</i>	2013	2012
Cash Flows From Operating Activities:		
Deficiency of support and revenue over expenses	\$(156,629)	\$ (21,397)
Adjustments to reconcile deficiency of support and revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation	3,707	13,000
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	20,809	(11,266)
Prepaid expenses and other assets	(96,402)	-
Increase (decrease) in:		
Accounts payable	40,855	28,753
Accrued payroll and related liabilities	201,466	18,602
Due to related party	(84,781)	12,040
Net (Decrease) Increase in Cash	(70,975)	39,732
Cash, Beginning of Year	430,254	390,522
Cash, End of Year	\$ 359,279	\$430,254

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) *Basis of Presentation*

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.

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) *Cash and Cash Equivalents*

Cash equivalents include money market accounts, which are highly liquid investments with maturities of three months or less when purchased.

(d) *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, which is three to five years for all types of property and equipment.

The Harbor Science and Arts Charter School

Notes to Financial Statements

(e) Revenue Recognition

(i) State and Local Government Grants and Contracts

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.

(ii) 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.

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

(iii) Donated Services

The School recognizes as income contributed services that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if they had not been contributed.

A number of volunteers have made a contribution of their time to the School to develop its academic programs and to serve on the School's Board of Trustees. The value of this contributed time is not reflected in these financial statements since it does not meet the criteria for recognition.

(f) Expenses

Expenses are classified according to the functional categories for which they are incurred, as follows:

- Program Services - represents expenses directly associated with general education and special education for certain students requiring additional attention and guidance.
- Management and General - represents expenses related to the overall administration and operation of the School that are not associated with any program services or development.

(g) 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 ("IRS") not to be a "private foundation" within the meaning of Section 509(a) of the Code. There was no unrelated business income for 2012 and 2011.

The Harbor Science and Arts Charter School

Notes to Financial Statements

Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained upon examination by a taxing authority. The implementation of ASC 740 had no impact on the School's financial statements. The School does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The School has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, The School has filed IRS Form 990 information returns, as required, and all other applicable returns in jurisdictions where so required. For the years ended June 30, 2013 and 2012, there was no interest or penalties recorded or included in the statements of activities. Management believes it is no longer subject to income tax examination for the years prior to June 30, 2009.

(h) Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

(i) 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 Federal Deposit Insurance Company ("FDIC") insurance limits.

(j) Reclassifications

Certain prior year balances have been reclassified to be consistent with the current year financial statement presentation. The reclassifications had no impact on changes in net assets.

3. Fixed Assets, Net

Fixed assets, stated at cost, consist of the following:

<i>June 30,</i>	2013	2012
Computer equipment	\$ 24,178	\$ 24,178
Furniture and fixtures	49,902	49,902
	74,080	74,080
Less: Accumulated depreciation	(63,429)	(59,722)
Fixed assets, net	\$ 10,651	\$ 14,358

The Harbor Science and Arts Charter School

Notes to Financial Statements

4. Related Party

Boys & Girls Harbor, Inc. (the "Harbor") (a) provided certain enumerated services for which it was reimbursed by the School at a negotiated rate, (b) paid certain enumerated expenses incurred by both the Harbor and the School under one account, for which it was reimbursed by the School at cost and (c) provided in-kind contributions when the cost to provide these services exceeded the amounts reimbursed by the School. The Harbor Executive Director served on the board of the School. The services provided and expenses paid by the Harbor, subject to reimbursement, included accounting, development, human resources, technology and insurance, as well as the use of classrooms and office space leased to the Harbor. During the year ended June 30, 2013, the School was invoiced and subsequently paid the Harbor approximately \$725,000 for these services. At June 30, 2013, the School did not owe the Harbor any amount under the existing arrangement and had received in-kind contributions of \$47,461 from the Harbor.

As of the year ended June 30, 2013, the agreement was nullified by both parties

5. Expenditures Per Pupil

<i>Year ended June 30,</i>	2013	2012
Total program expenditures	\$3,780,925	\$3,709,616
Total full-time equivalent school enrollment	240	233
Expenditures per pupil	\$ 15,754	\$ 15,921

6. Accrued Payroll and Related Liabilities

For the year ended June 30, 2013, the School accrued salaries for instructional staff employed during the summer months. This accrual was not done in prior years. The total accrued payroll and related liabilities at June 30, 2013 and 2012 were \$274,593 and \$73,127, respectively.

7. Subsequent Events

The School's management has performed subsequent events procedures through November 1, 2013, which is the date the financial statements were available to be issued and there were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein.



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*

To the Board of Directors
The 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 the Harbor Science and Arts Charter School (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Harbor Science and Arts Charter 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*.

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

November 1, 2013

The Harbor Science and Arts Charter School

Management Letter
Year Ended June 30, 2013

**The Harbor Science and Arts
Charter School**

Management Letter
Year Ended June 30, 2013



October 31, 2013

**Board of Directors
The Harbor Science and Arts Charter School
Dobbs Ferry, New York**

During the course of our audit of The Harbor Science and Arts Charter School (collectively referred to as the "School") financial statements for the year ended June 30, 2013, we observed the company's significant accounting policies and procedures and certain business, financial, income tax, and administrative practices.

In planning and performing our audit of the financial statements of the School as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the 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 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. 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 company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the second paragraph of this letter 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 that we consider to be material weaknesses, as defined above. However, as a result of our observations, we have developed the following recommendations.

The School's written responses to the recommendations have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Directors and Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the School's financial statements.

Sincerely,

BDO USA, LLP

BDO USA, LLP

The Harbor Science and Arts Charter School

Management Letter Year Ended June 30, 2013

1. Finance Committee Minutes

Observation and Recommendation:

Our audit procedures disclosed that finance committee minutes of the meetings of the Board of Directors are not maintained. As a result, there is no assurance regarding the discussion that may have taken place at a meeting of the board and likewise, no assurance regarding official actions of the Board that may have had a financial impact. We very strongly suggest that, in the future, minutes be promptly prepared and retained for all meetings of the Board of Directors.

Recommendation:

We recommend the School maintains proper minutes to all committees of the Board of Directors.

Management's Response:

The school agrees with the recommendation as put forth by the auditing firm and will implement accordingly.

2. Review of Pay Changes

Observation:

Our audit testing disclosed that there were 2 individuals who received a pay increase; however, this change was not made on the payroll register. This led to an underpayment for a whole year for these 2 employees.

Recommendation:

There is no established procedure for prior review and approval of gross pay changes made to the payroll records. This is a concern and we advise the school to update the existing review and approval process to ensure better control in this area. The personnel department should continue to use the Personnel Change Form (PCN), which indicates all of the appropriate sign offs, before the information is entered into the payroll. The personnel department should also subsequently review the payroll register to ensure the appropriate changes were made. The employee file should also contain all approved salary increases so that, at any point in time, the employee's current salary can be verified.

Management's Response:

The school agrees and has established a stronger procedure for review and approval of gross pay changes made to the payroll records. The school will continue to use the PCN form, obtaining the proper review and approvals. The Finance Department will also receive a copy of the approved PCN form to ensure the correct salaries are added to the payroll system. In addition periodic reviews of employee files will be made to ensure all PCN forms are properly included.