

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NEW YORK, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2015

(With Comparative Totals For 2014)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Harbor Science and Arts Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Science and Arts Charter School, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Science and Arts Charter School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Harbor Science and Arts Charter School's June 30, 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 27, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 on our consideration of Harbor Science and Arts Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harbor Science and Arts Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 28, 2015

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(With Comparative Totals For 2014)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 164,301	\$ 121,226
Cash in escrow	75,000	75,000
Grants and other receivables	147,903	103,817
Prepaid expenses	5,468	6,925
TOTAL CURRENT ASSETS	392,672	306,968
 <u>PROPERTY AND EQUIPMENT</u>		
Furniture and fixtures	32,983	35,693
Computers and software	75,053	54,101
Leasehold improvements	268,261	103,220
	376,297	193,014
Less accumulated depreciation	97,844	76,752
	278,453	116,262
 <u>DEPOSITS</u>	30,000	58,017
TOTAL ASSETS	<u>\$ 701,125</u>	<u>\$ 481,247</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 99,876	\$ 62,593
Accrued payroll and benefits	279,270	273,133
TOTAL CURRENT LIABILITIES	379,146	335,726
 <u>DEFERRED LEASE LIABILITY</u>	86,436	43,216
 <u>NET ASSETS, unrestricted</u>	235,543	102,305
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 701,125</u>	<u>\$ 481,247</u>

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2015
(With Comparative Totals For 2014)

	<u>Year ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 3,673,530	\$ 3,451,027
Governmental grants	370,788	330,949
Contributions	49,648	106,503
Special events	<u>31,419</u>	<u>21,333</u>
TOTAL OPERATING REVENUE AND SUPPORT	4,125,385	3,909,812
Expenses:		
Program:		
Regular education	2,961,716	2,921,702
Special education	521,039	491,313
Management and general	492,783	517,192
Fundraising and special events	<u>16,609</u>	<u>14,075</u>
TOTAL EXPENSES	<u>3,992,147</u>	<u>3,944,282</u>
CHANGE IN NET ASSETS	133,238	(34,470)
Unrestricted net assets at beginning of year	<u>102,305</u>	<u>136,775</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 235,543</u>	<u>\$ 102,305</u>

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015
(With Comparative Totals For 2014)

	Year ended June 30,						2014	Total
	2015			2014				
	Program Services			Supporting Services				
Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-Total	Total	Total	
Salaries	\$ 1,850,568	\$ 326,130	\$ 2,176,698	\$ 224,460	\$ 6,843	\$ 231,303	\$ 2,408,001	\$ 2,349,598
Payroll taxes and employee benefits	422,089	74,386	496,475	51,196	1,561	52,757	549,232	530,896
Professional fees	20,543	3,530	24,073	138,012	-	138,012	162,085	166,633
Accounting / audit services	-	-	-	18,200	-	18,200	18,200	17,950
Program supplies	22,095	3,798	25,893	-	-	-	25,893	19,221
Student services	23,902	4,108	28,010	-	-	-	28,010	30,169
Office expense	15,386	2,711	18,097	1,866	57	1,923	20,020	21,646
Technology	17,785	3,134	20,919	2,157	66	2,223	23,142	17,667
Insurance	26,349	4,643	30,992	3,196	97	3,293	34,285	34,027
Staff development	4,456	779	5,235	2,238	12	2,250	7,485	7,320
Advertising /seminars / workshops	869	151	1,020	49	2	51	1,071	1,030
Food	117,084	20,122	137,206	-	-	-	137,206	185,007
Equipment rental	21,530	3,794	25,324	2,611	80	2,691	28,015	33,209
Depreciation	22,741	3,908	26,649	-	-	-	26,649	13,324
Miscellaneous expense	-	-	-	728	-	728	728	2,871
Repair and maintenance	41,018	7,229	48,247	4,975	152	5,127	53,374	48,752
Rent and utilities	355,301	62,616	417,917	43,095	1,314	44,409	462,326	463,289
Special events expense	-	-	-	-	6,425	6,425	6,425	1,673
	<u>\$ 2,961,716</u>	<u>\$ 521,039</u>	<u>\$ 3,482,755</u>	<u>\$ 492,783</u>	<u>\$ 16,609</u>	<u>\$ 509,392</u>	<u>\$ 3,992,147</u>	<u>\$ 3,944,282</u>

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015
(With Comparative Totals For 2014)

	<u>Year ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 133,238	\$ (34,470)
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation	26,649	13,324
Changes in certain assets and liabilities affecting operations:		
Cash in escrow	-	(29,956)
Grants and other receivables	(44,086)	(30,149)
Prepaid expenses	1,457	53,477
Deposits	-	(22,017)
Accounts payable	37,283	(66,039)
Accrued payroll and benefits	6,137	(1,460)
Deferred lease liability	<u>43,220</u>	<u>43,216</u>
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	203,898	(74,074)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	<u>(160,823)</u>	<u>(118,935)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(160,823)</u>	<u>(118,935)</u>
NET INCREASE (DECREASE) IN CASH	43,075	(193,009)
Cash at beginning of year	<u>121,226</u>	<u>314,235</u>
CASH AT END OF YEAR	<u>\$ 164,301</u>	<u>\$ 121,226</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Transfer of deposits to property and equipment	<u>\$ 28,017</u>	<u>\$ -</u>

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

(With Comparative Totals For 2014)

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

The Charter School

Harbor Science and Arts Charter School (the “Charter School”), is an education corporation operating as a charter school in New York, New York. The Charter school opened in 2000 with a charter granted by the Board of Regents of the University of the State of New York. On July 26, 2012, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

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

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter 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 Charter School. The Charter School had no permanently restricted net assets at June 30, 2015 or 2014.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2015 or 2014.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School’s charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals For 2014)

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

Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

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

Cash in escrow

The Charter School maintains cash in an escrow account, pursuant to its Charter Agreement, to pay off expenses in the event of dissolution of the Charter School.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2015 or 2014.

Property and equipment

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

Deferred lease liability

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals For 2014)

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

Cont'd

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2012 through June 30, 2015 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed services

The Charter school receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. In addition, the Charter School received donated transportation services that were provided for the students from the local district. These services are not valued in the financial statements.

Use of estimates in the preparation of financial statements

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

Comparatives for year ended June 30, 2014

The financial statements include certain prior year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 28, 2015, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals For 2014)

NOTE B: SCHOOL FACILITY

Effective July 1, 2013, the Charter School entered into a fifteen year lease for its facilities through June 30, 2028. The Charter School's base rent for the year ended June 30, 2014 was \$350,000 per annum and the base rent will increase in accordance with the lease agreement. Rent expense totaled \$408,224 and \$393,220, for the years ended June 30, 2015 and 2014, respectively.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 375,000
2017	375,000
2018	375,000
2019	400,000
2020	408,000
Thereafter	<u>3,265,303</u>
	<u>\$ 5,198,303</u>

In conjunction with this facility lease, the Charter School paid a security deposit of \$30,000, which is included in deposits on the accompanying statement of financial position at June 30, 2015 and 2014.

NOTE C: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease agreement expiring in June 2018. Lease expense was approximately \$28,000 and \$33,000, for the years ended June 30, 2015 and 2014, respectively. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 28,728
2017	28,728
2018	<u>28,728</u>
	<u>\$ 86,184</u>

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015

(With Comparative Totals For 2014)

NOTE D: RETIREMENT PLAN

The Charter School participated in a 403(b) retirement plan of an affiliate of the Charter School, Boys & Girls Harbor, Inc., for the year ended June 30, 2014. This Plan allowed for the Charter School to make a discretionary employee matching contribution.

Effective July 1, 2014, the Charter School sponsors a 403(b) retirement plan covering all regular employees. The Plan allows for the Charter School to make a discretionary employee matching contribution.

The Charter School did not make any contributions for the years ended June 30, 2015 or 2014.

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

NOTE F: CONCENTRATIONS

At June 30, 2015 and 2014, approximately 84% and 98%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2015 and 2014, 89% and 88%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Trustees
Harbor Science and Arts Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harbor Science and Arts Charter School, which comprise the statement of financial position as of June 30, 2015 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted a certain matter that we have reported to management of Harbor Science and Arts Charter School in a separate letter dated October 28, 2015.

Purpose of This Report

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

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 28, 2015

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2015



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 28, 2015

To the Board of Trustees
Harbor Science and Arts Charter School

In planning and performing our audit of the financial statements of Harbor Science and Arts Charter School (the “Charter School”) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter School’s internal control over financial reporting (internal control) as a basis for designing 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 Charter School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this letter and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Status of matters included in our letter as of June 30, 2014, dated October 27, 2014

We do not consider the following to be a significant deficiency or a material weakness:

Conflict of Interest Policy

The New York State Legislature has passed the Nonprofit Revitalization Act of 2013 (the "Act"). The Act became effective July 1, 2014. The Act makes a number of significant changes to the law regarding nonprofit corporations, including the provision that all nonprofits must adopt a written conflict of interest policy. Harbor Science and Arts Charter School currently does not have a formal conflict of interest policy.

Recommendation

We suggest Harbor Science and Arts Charter School formalize a written conflict of interest policy.

Status at June 30, 2015

No change noted.

* * * * *

We believe that the implementation of this recommendation will improve the controls in place and efficiency of the Charter School's internal control.

This communication is intended solely for the information and use of Management, Finance Committee Members and Board Members 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 Charter School's financial statements. Should you have any questions or comments, please contact Michelle Cain or Greg Carver.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2015



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 28, 2015

The Finance Committee
Harbor Science and Arts Charter School

We have audited the financial statements of Harbor Science and Arts Charter School as of and for the year ended June 30, 2015, and have issued our report thereon dated October 28, 2015. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 16, 2015, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Harbor Science and Arts Charter School solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding control deficiencies and other matters noted during our audit in a separate letter to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Harbor Science and Arts Charter School is included in Note A to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2015. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the allocations of operating expenses to program expenses and management and general expenses and the collectability of grants receivable. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Harbor Science and Arts Charter School's financial statements relate to revenue and support recognition, which is referred to in the notes of the financial statements.

Identified or Suspected Fraud

We have not identified or obtained information that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We are pleased to report we encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. We did not identify any misstatements during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Harbor Science and Arts Charter School's financial statements or the auditor's report. We are pleased to report no such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Harbor Science and Arts Charter School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Harbor Science and Arts Charter School's auditors.

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Should you desire further information concerning these matters, Michelle Cain or Greg Carver will be happy to meet with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees and management of Harbor Science and Arts Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

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