

The Harbor Science and Arts Charter School

Financial Statements and Supplemental Schedule

Years Ended June 30, 2012 and 2011

**The Harbor Science and Arts
Charter School**

Financial Statements and Supplemental
Schedule

Years Ended June 30, 2012 and 2011

The Harbor Science and Arts Charter School

Contents

Independent Auditors' Report	3
Financial Statements:	
Statements of Financial Position as of June 30, 2012 and 2011	4
Statements of Activities for the Years Ended June 30, 2012 and 2011	5
Statements of Cash Flows for the Years Ended June 30, 2012 and 2011	6
Notes to Financial Statements	7-9
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	10-11
Supplemental Schedule:	
Schedule of Findings for the Year Ended June 30, 2012	12



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, 2012 and 2011, 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 audit 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 audit provides 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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

BDO USA, LLP

November 9, 2012

The Harbor Science and Arts Charter School

Statements of Financial Position

<i>June 30,</i>	2012	2011
Assets		
Cash	\$430,254	\$390,522
Accounts receivable	94,477	83,211
Fixed assets, net (Note 3)	14,358	27,358
	\$539,089	\$501,091
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 87,777	\$ 59,024
Accrued payroll and related liabilities	73,127	54,525
Due to related party (Note 4)	84,781	72,741
Total Liabilities	245,685	186,290
Net Assets:		
Unrestricted	293,404	314,801
	\$539,089	\$501,091

See accompanying notes to financial statements.

The Harbor Science and Arts Charter School

Statements of Activities (Unrestricted)

<i>Year ended June 30,</i>	2012	2011
Support and Revenue:		
Revenue from public school district	\$3,228,453	\$3,013,933
Government grant revenue	487,587	238,924
In-kind contributions	131,415	-
Foundation and corporate contributions	5,000	33,892
Special events revenue, net of \$2,662 and \$20,627 of direct benefit costs to donors for the years ended June 30, 2012 and 2011, respectively	10,645	5,176
Other income	1,951	5,578
Total Support and Revenue	3,865,051	3,297,503
Expenses:		
Program services:		
Salaries	2,284,177	2,057,183
Fringe benefits and payroll taxes	559,936	469,997
Rent and utilities	206,524	128,992
Program supplies	68,221	78,345
Food	114,107	106,121
Repairs and maintenance	5,640	8,699
Insurance	18,605	14,155
Housekeeping supplies	10,135	8,578
Transportation services	10,920	10,541
Professional fees	334,494	107,301
Equipment rental	32,749	26,395
Telephone	5,139	5,603
Stipends	7,180	6,321
Scholarships	3,000	3,000
Office expense	16,842	14,662
Equipment expense	7,353	19,094
Advertising/seminars/workshops	4,530	1,434
Miscellaneous	20,064	48,873
	3,709,616	3,115,294
Management and general:		
Administrative services	139,893	40,000
Accounting and audit fees	23,939	24,999
Depreciation expense	13,000	12,277
	176,832	77,276
Total Expenses	3,886,448	3,192,570
Excess (Deficiency) of Support and Revenue Over Expenses	(21,397)	104,933
Net Assets, Beginning of Year	314,801	209,868
Net Assets, End of Year	\$ 293,404	\$ 314,801

See accompanying notes to financial statements.

The Harbor Science and Arts Charter School

Statement of Cash Flows

<i>Year ended June 30,</i>	2012	2011
Cash Flows From Operating Activities:		
Excess (deficiency) of support and revenue over expenses	\$ (21,397)	\$104,933
Adjustments to reconcile excess (deficiency) of support and revenue over expenses to net cash provided by operating activities:		
Depreciation	13,000	12,277
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(11,266)	58,261
Prepaid expenses and other assets	-	3,000
Increase (decrease) in:		
Accounts payable	28,753	11,971
Accrued payroll and related liabilities	18,602	(40,024)
Due to related party	12,040	(37,390)
Net Cash Provided By Operating Activities	39,732	113,028
Cash Flows From Investing Activities:		
Purchases of fixed assets	-	(18,871)
Net Increase in Cash	39,732	94,157
Cash, Beginning of Year	390,522	296,365
Cash, End of Year	\$430,254	\$390,522

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.

(e) 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.

The Harbor Science and Arts Charter School

Notes to Financial Statements

(f) 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.

(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 School adopted the provisions of Accounting Standards Codification ("ASC") 740, "Income Taxes". 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 year ended June 30, 2012 and 2011, there was no interest or penalties recorded or included in the statements of activities.

(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.

The Harbor Science and Arts Charter School

Notes to Financial Statements

3. Fixed Assets, Net

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

<i>June 30,</i>	2012	2011
Computer equipment	\$ 24,178	\$ 24,178
Furniture and fixtures	49,902	49,902
	74,080	74,080
Less: Accumulated depreciation	(59,722)	(46,722)
Fixed assets, net	\$ 14,358	\$ 27,358

4. Due to Related Party

Boys & Girls Harbor, Inc. ("Harbor") (a) provides certain enumerated services for which it is reimbursed by the School at a negotiated rate, (b) pays certain enumerated expenses incurred by both the Harbor and the School under one account, for which it is reimbursed by the School at cost and (c) provides in-kind contributions when the cost to provide these services exceeds the amounts reimbursed by the School. The Harbor Executive Director serves on the board of the School. The services provided and expenses paid by the Harbor, subject to reimbursement, include 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, 2012, the School was invoiced for approximately \$900,000 for these services and had reimbursed the Harbor for approximately \$816,000. The amount due to the Harbor at June 30, 2012 and 2011 was \$84,781 and \$72,741, respectively. For the year ended June 30, 2012, the School received in-kind contributions of \$131,415 from the Harbor.

5. Expenditures Per Pupil

<i>Year ended June 30,</i>	2012	2011
Total program expenditures	\$3,709,616	\$3,115,294
Total full-time equivalent school enrollment	233	213
Expenditures per pupil	\$ 15,921	\$ 14,626

6. Subsequent Events

The School's management has performed subsequent events procedures through November 9, 2012 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 Auditors' 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 year ended June 30, 2012, and have issued our report thereon dated November 9, 2012. 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.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective 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 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.

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 deficiencies, 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*.

We noted a matter during the prior year audit that we reported to management of the School in a separate letter dated October 25, 2011.

This report is intended solely for the information and use of management, the Board of Directors, 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.

BDO USA, LLP

Certified Public Accountants

New York, New York

November 9, 2012

The Harbor Science and Arts Charter School

Schedule of Findings

Year ended June 30, 2012

Item #	Description of Condition	Status of Corrective Action
--------	--------------------------	-----------------------------

Summary of Prior Year Findings

11-01 **Net Assets Reconciliation**

During our audit of the School's financial statements, we noted the net assets were not reconciled and properly closed out for the prior year ended June 30, 2010. Additionally, a prior period adjustment was not recorded by the Accounting Department to correct the issue leading to a variance of approximately \$46,000. The net assets should be reconciled to the audited financial statements to ensure that all entries have been recorded and the corresponding net asset balances are correct moving forward into the new fiscal year.	Corrected for current fiscal year by management.
--	--