

# The Harbor Science and Arts Charter School

## Financial Statements and Supplemental Schedule

Years Ended June 30, 2011 and 2010

**The Harbor Science and Arts  
Charter School**

Financial Statements and Supplemental  
Schedule

Years Ended June 30, 2011 and 2010

# 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, 2011 and 2010, 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, 2011 and 2010, 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 October 25, 2011 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BDO USA, LLP

October 25, 2011

# The Harbor Science and Arts Charter School

## Statements of Financial Position

<i>June 30,</i>	2011	2010
<b>Assets</b>		
Cash	\$390,522	\$296,365
Accounts receivable	83,211	141,472
Prepaid expenses and other assets	-	3,000
Fixed assets, net (Note 3)	27,358	20,764
	<b>\$501,091</b>	<b>\$461,601</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 59,024	\$ 47,053
Accrued payroll and related liabilities	54,525	94,549
Due to related party (Note 4)	72,741	110,131
<b>Total Liabilities</b>	<b>186,290</b>	<b>251,733</b>
<b>Net Assets (Note 2):</b>		
Unrestricted	314,801	178,184
Unrestricted - Board designated (Note 7)	-	31,684
<b>Total Net Assets</b>	<b>314,801</b>	<b>209,868</b>
	<b>\$501,091</b>	<b>\$461,601</b>

*See accompanying notes to financial statements.*

# The Harbor Science and Arts Charter School

## Statements of Activities (Unrestricted)

<i>Year ended June 30,</i>	2011	2010
<b>Support and Revenue:</b>		
Revenue from public school district	\$3,013,933	\$2,850,061
Government grant revenue	238,924	288,076
Foundation and corporate contributions	33,892	26,338
Special events revenue, net of \$20,627 of direct benefit costs to donors for the year ended June 30, 2011	5,176	-
Other income	5,578	56,366
<b>Total Support and Revenue</b>	<b>3,297,503</b>	<b>3,220,841</b>
<b>Expenses:</b>		
Program services:		
Salaries	2,057,183	2,024,940
Fringe benefits and payroll taxes	469,997	488,292
Rent and utilities	128,992	125,242
Program supplies	78,345	112,951
Food	106,121	99,493
Repairs and maintenance	8,699	1,954
Insurance	14,155	13,944
Housekeeping supplies	8,578	6,757
Transportation services	10,541	9,055
Professional fees	107,301	109,855
Equipment rental	26,395	25,452
Telephone	5,603	6,660
Stipends	6,321	8,250
Scholarships	3,000	1,750
Office expense	14,662	14,741
Equipment expense	19,094	7,607
Advertising/seminars/workshops	1,434	867
Miscellaneous	48,873	17,259
	<b>3,115,294</b>	<b>3,075,069</b>
Management and general:		
Administrative services	40,000	48,000
Accounting and audit fees	24,999	25,000
Depreciation expense	12,277	13,340
	<b>77,276</b>	<b>86,340</b>
<b>Total Expenses</b>	<b>3,192,570</b>	<b>3,161,409</b>
<b>Excess of Support and Revenue Over Expenses</b>	<b>104,933</b>	<b>59,432</b>
<b>Net Assets, Beginning of Year</b>	<b>209,868</b>	<b>150,436</b>
<b>Net Assets, End of Year</b>	<b>\$ 314,801</b>	<b>\$ 209,868</b>

*See accompanying notes to financial statements.*

# The Harbor Science and Arts Charter School

## Statement of Cash Flows

<i>Year ended June 30,</i>	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Excess of support and revenue over expenses	\$104,933	\$ 59,432
Adjustments to reconcile excess of support and revenue over expenses to net cash provided by operating activities:		
Depreciation	12,277	13,340
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	58,261	26,335
Prepaid expenses and other assets	3,000	(3,000)
Increase (decrease) in:		
Accounts payable	11,971	11,649
Accrued payroll and related liabilities	(40,024)	(22,456)
Due to related party	(37,390)	43,425
<b>Net Cash Provided By Operating Activities</b>	<b>113,028</b>	<b>128,725</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of fixed assets	(18,871)	(3,578)
<b>Net Increase in Cash</b>	<b>94,157</b>	<b>125,147</b>
<b>Cash, Beginning of Year</b>	<b>296,365</b>	<b>171,218</b>
<b>Cash, End of Year</b>	<b>\$390,522</b>	<b>\$296,365</b>

*See accompanying notes to financial statements.*

# The Harbor Science and Arts Charter School

## Notes to Financial Statements

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### 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.

**Unrestricted - Board Designated** - Consists of a portion of the unrestricted net assets that were designated by the Board of Directors for specific purposes.

#### *(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

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### *(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.

### *(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 2011 and 2010.

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, 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 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

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### 3. Fixed Assets, Net

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

<i>June 30,</i>	2011	2010
Computer equipment	\$ 24,178	\$ 77,345
Books	17,090	17,090
Furniture and fixtures	31,412	33,092
Machinery and equipment	1,400	1,400
	74,080	128,927
Less: Accumulated depreciation	(46,722)	(108,163)
Fixed assets, net	\$ 27,358	\$ 20,764

During the year ended June 30, 2011, the School retired fully depreciated assets with an historical cost of approximately \$74,000.

### 4. Related Party

Boys & Girls Harbor, Inc. ("Harbor") (a) provides certain enumerated services for which it is reimbursed by the School at a negotiated rate, and (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. 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, 2011, the School was invoiced for approximately \$834,000 for these services and had reimbursed the Harbor for approximately \$764,000. The amount due to the Harbor at June 30, 2011 and 2010 was \$72,741 and 110,131, respectively.

### 5. 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 was recognized as income in the year ended June 30, 2011 having no restrictions or obligations as to the use of the funds.

### 6. Expenditures Per Pupil

<i>Year ended June 30,</i>	2011	2010
Total program expenditures	\$3,115,294	\$3,075,069
Total full-time equivalent school enrollment	213	217
Expenditures per pupil	\$ 14,626	\$ 14,171

# The Harbor Science and Arts Charter School

## Notes to Financial Statements

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### 7. Subsequent Events

The School's management has performed subsequent events procedures through October 25, 2011 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.



## **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, 2011 and 2010, and have issued our report thereon dated October 25, 2011. 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**

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 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings, that we consider to be significant deficiencies in internal control over financial reporting (item 11-01). 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.



### 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 certain matters 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 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.

BDO USA, LLP

Certified Public Accountants

New York, New York

October 25, 2011

# The Harbor Science and Arts Charter School

## Schedule of Findings

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*Year ended June 30, 2011*

Item #	Description of Condition	Status of Corrective Action
11-01	<b><u>Net Assets Reconciliation</u></b> 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.	Management upgraded its accounting system and procedures in October 2011. In addition, this implementation will assist in the process of ensuring that all balance sheet accounts are reconciled to the financial statements, and that each account is in the correct category before closing out the fiscal year.