

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, 2014

(With Comparative Totals For 2013)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
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 <i>Government Auditing Standards</i>	15

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, 2014, 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, 2014, 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

The financial statements of Harbor Science and Arts Charter School for the year ended June 30, 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements in their report dated November 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 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 27, 2014 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 27, 2014

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

(With Comparative Totals For 2013)

<u>ASSETS</u>	June 30,	
	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 121,226	\$ 314,235
Cash in escrow	75,000	45,044
Grants and other receivables	103,817	73,668
Prepaid expenses	<u>6,925</u>	<u>60,402</u>
TOTAL CURRENT ASSETS	306,968	493,349
 <u>PROPERTY AND EQUIPMENT</u>		
Furniture and fixtures	35,693	31,412
Computers and software	54,101	42,668
Leasehold improvements	<u>103,220</u>	<u>-</u>
	193,014	74,080
Less accumulated depreciation	<u>76,752</u>	<u>63,429</u>
	116,262	10,651
 <u>DEPOSITS</u>	<u>58,017</u>	<u>36,000</u>
TOTAL ASSETS	<u>\$ 481,247</u>	<u>\$ 540,000</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 62,593	\$ 128,632
Accrued payroll and benefits	<u>273,133</u>	<u>274,593</u>
TOTAL CURRENT LIABILITIES	335,726	403,225
 <u>DEFERRED LEASE LIABILITY</u>	<u>43,216</u>	<u>-</u>
 <u>NET ASSETS, unrestricted</u>	<u>102,305</u>	<u>136,775</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 481,247</u>	<u>\$ 540,000</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, 2014
(With Comparative Totals For 2013)

	June 30,	
	2014	2013
Operating revenue and support:		
State and local per pupil operating revenue	\$ 3,451,027	\$ 3,392,078
Governmental grants	330,949	371,258
Contributions	106,503	15,615
In-kind contributions	-	47,461
Special events	21,333	23,667
TOTAL OPERATING REVENUE AND SUPPORT	3,909,812	3,850,079
Expenses:		
Program:		
Regular education	2,921,702	3,104,454
Special education	491,313	435,724
Management and general	517,192	454,060
Fundraising and special events	14,075	12,470
TOTAL EXPENSES	3,944,282	4,006,708
CHANGE IN NET ASSETS	(34,470)	(156,629)
Unrestricted net assets at beginning of year	136,775	293,404
UNRESTRICTED NET ASSETS AT END OF YEAR	\$ 102,305	\$ 136,775

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, 2014
(With Comparative Totals For 2013)

	Year ended June 30,							
	2014						2013	
	Program Services			Supporting Services				
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-Total	Total	Total
Salaries	\$ 1,800,029	\$ 301,855	\$ 2,101,884	\$ 239,390	\$ 8,324	\$ 247,714	\$ 2,349,598	\$ 2,483,256
Payroll taxes and employee benefits	406,719	68,205	474,924	54,091	1,881	55,972	530,896	555,846
Professional fees	25,267	4,102	29,369	137,264	-	137,264	166,633	178,593
Accounting / audit services	-	-	-	17,950	-	17,950	17,950	37,336
Program supplies	16,536	2,685	19,221	-	-	-	19,221	32,414
Student services	25,955	4,214	30,169	-	-	-	30,169	189,692
Office expense	16,583	2,781	19,364	2,205	77	2,282	21,646	24,229
Technology	13,534	2,270	15,804	1,800	63	1,863	17,667	33,262
Insurance	26,068	4,371	30,439	3,467	121	3,588	34,027	26,699
Staff development	1,452	2,878	4,330	2,990	-	2,990	7,320	10,344
Advertising /seminars / workshops	789	132	921	105	4	109	1,030	75
Food	159,166	25,841	185,007	-	-	-	185,007	142,800
Equipment rental	25,441	4,266	29,707	3,384	118	3,502	33,209	33,895
Depreciation	11,463	1,861	13,324	-	-	-	13,324	3,707
Miscellaneous expense	425	70	495	2,376	-	2,376	2,871	10,378
Repair and maintenance	37,349	6,263	43,612	4,967	173	5,140	48,752	3,883
Rent and utilities	354,926	59,519	414,445	47,203	1,641	48,844	463,289	234,152
Special events expense	-	-	-	-	1,673	1,673	1,673	6,147
	<u>\$ 2,921,702</u>	<u>\$ 491,313</u>	<u>\$ 3,413,015</u>	<u>\$ 517,192</u>	<u>\$ 14,075</u>	<u>\$ 531,267</u>	<u>\$ 3,944,282</u>	<u>\$ 4,006,708</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, 2014
(With Comparative Totals For 2013)

	June 30,	
	2014	2013
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (34,470)	\$ (156,629)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	13,324	3,707
Changes in certain assets and liabilities affecting operations:		
Cash in escrow	(29,956)	-
Grants and other receivables	(30,149)	20,809
Prepaid expenses	53,477	(60,402)
Security deposits	(22,017)	(36,000)
Accounts payable	(66,039)	40,855
Accrued payroll and benefits	(1,460)	201,466
Due to related party	-	(84,781)
Deferred lease liability	43,216	-
NET CASH USED FOR OPERATING ACTIVITIES	(74,074)	(70,975)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(118,935)	-
NET CASH USED FOR INVESTING ACTIVITIES	(118,935)	-
NET DECREASE IN CASH	(193,009)	(70,975)
Cash at beginning of year	314,235	385,210
CASH AT END OF YEAR	\$ 121,226	\$ 314,235

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

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(With Comparative Totals For 2013)

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, 2014 or 2013.

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, 2014 or 2013.

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, 2014

(With Comparative Totals For 2013)

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, 2014 or 2013.

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 fifteen years which is 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, 2014

(With Comparative Totals For 2013)

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, 2011 through June 30, 2014 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, 2013

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, 2013, from which the summarized information was derived.

Reclassifications

Certain 2013 amounts have been reclassified to conform with the 2014 presentation.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 27, 2014, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted except as described in Note E.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014

(With Comparative Totals For 2013)

NOTE B: RELATED PARTY

Boys & Girls Harbor, Inc. (the "Harbor") (a) provided certain enumerated services for which it was reimbursed by the Charter School at a negotiated rate, (b) paid certain enumerated expenses incurred by both the Harbor and the Charter 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 Charter School. The Harbor Executive Director served on the board of the Charter 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 Charter School was invoiced and subsequently paid the Harbor approximately \$725,000 for these services. At June 30, 2013, the Charter School did not owe the Harbor any amount under this arrangement and had received in-kind contributions of \$47,461 from the Harbor.

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

NOTE C: 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 \$393,220 and \$228,484, for the years ended June 30, 2014 and 2013, respectively.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 350,000
2016	375,000
2017	375,000
2018	375,000
2019	400,000
Thereafter	<u>3,673,303</u>
	<u>\$ 5,548,303</u>

In conjunction with this facility lease, the Charter School paid a security deposit of \$30,000 during the year ended June 30, 2013, which is included in deposits on the accompanying statement of financial position at June 30, 2014 and 2013.

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2014

(With Comparative Totals For 2013)

NOTE D: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease agreement expiring in June 2018. Lease expense was approximately \$33,000 and \$34,000, for the years ended June 30, 2014 and 2013, respectively. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 28,728
2016	28,728
2017	28,728
2018	28,728
	<u>\$ 114,912</u>

NOTE E: 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 years ended June 30, 2014 and June 30, 2013. This Plan allowed for the Charter School to make a discretionary employee matching contribution. The Charter School made contributions of approximately \$4,000 for the year ended June 30, 2013. The Charter School did not make any contributions for the year ended June 30, 2014.

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.

NOTE F: 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 G: CONCENTRATIONS

At June 30, 2014 and 2013, approximately 98% and 40%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For each year ended June 30, 2014 and 2013, 88% 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, 2014 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 27, 2014.

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 27, 2014.

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.

Restricted Use

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, the State University of New York, the New York State Education Department and others within the Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 27, 2014

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2014



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants



October 27, 2014

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, 2014, 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.

During the course of our audit of the financial statements of Harbor Science and Arts Charter School as of and for the year ended June 30, 2014, we observed the Charter School’s significant accounting policies and certain business, financial and administrative practices. As a result of our observations, we noted the following, which we do not consider to be a significant deficiency or a material weakness:

Conflict of Interest and Whistleblower Policies

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, and nonprofits with 20 or more employees and annual revenues of more than \$1 million must also adopt a whistleblower policy. Harbor Science and Arts Charter School currently does not have a formal conflict of interest policy or whistleblower policy.

Recommendation

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

* * * * *

We believe that the implementation of these recommendations 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