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, 2018
(With Comparative Totals For 2017)

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, 2018, 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.

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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, 2018, 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, 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 22, 2018 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, Barr & Co. LLP

Rochester, New York
October 22, 2018

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HARBOR SCIENCE AND ARTS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018
(With Comparative Totals For 2017)

ASSETS	June 30, 2018	June 30, 2017
CURRENT ASSETS		
Cash	$ 9,353	$ 154,797
Cash in escrow	75,000	75,000
Grants and other receivables	164,350	233,627
Prepaid expenses	105,116	7,563
TOTAL CURRENT ASSETS	353,819	470,987
PROPERTY AND EQUIPMENT		
Furniture and fixtures	61,053	61,053
Computers and software	139,824	122,026
Leasehold improvements	353,769	346,869
	554,646	529,948
Less accumulated depreciation and amortization	218,544	167,831
	336,102	362,117
DEPOSITS	30,000	30,000
TOTAL ASSETS	$ 719,921	$ 863,104
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 79,326	$ 89,328
Accrued payroll and benefits	302,853	255,601
Deferred revenue	1,559	12,754
TOTAL CURRENT LIABILITIES	383,738	357,683
OTHER LIABILITIES		
Deferred lease incentive	-	26,334
Deferred lease liability	141,096	122,876
	141,096	149,210
NET ASSETS		
Unrestricted	195,087	356,211
TOTAL LIABILITIES AND NET ASSETS	$ 719,921	$ 863,104

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, 2018
(With Comparative Totals For 2017)

	Year ended June 30,	
	2018	2017
Revenue, gains, and other support:		
Public school district		
Resident student enrollment	$ 3,668,962	$ 3,566,961
Students with disabilities	113,251	204,943
Grants and contracts		
State and local	19,625	18,730
Federal - Title and IDEA	182,012	125,767
Federal - Other	2,909	48,445
Food service/Child nutrition program	140,715	127,206
TOTAL REVENUE, GAINS AND OTHER SUPPORT	4,127,474	4,092,052
Expenses:		
Program services:		
Regular education	2,715,028	2,635,371
Special education	972,686	872,818
TOTAL PROGRAM SERVICES	3,687,714	3,508,189
Management and general	617,627	535,202
Fundraising and special events	-	1,007
TOTAL OPERATING EXPENSES	4,305,341	4,044,398
(DEFICIT) / SURPLUS FROM SCHOOL OPERATIONS	(177,867)	47,654
Support and other revenue:		
Contributions:		
In kind contributions	-	67,067
Other	13,568	8,763
Fundraising	3,175	11,030
TOTAL SUPPORT AND OTHER REVENUE	16,743	86,860
CHANGE IN NET ASSETS	(161,124)	134,514
Unrestricted net assets at beginning of year	356,211	221,697
UNRESTRICTED NET ASSETS AT END OF YEAR	$ 195,087	$ 356,211

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, 2018
(With Comparative Totals For 2017)

		Year ended June 30,							
		2018							2017
		Program Services			Supporting Services				
	No. of positions June 30, 2018	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-Total	Total	Total
Salaries and staff:									
Administrative staff personnel	6	$ 167,473	$ 54,547	$ 222,020	$ 253,461	$ -	$ 253,461	$ 475,481	$ 470,501
Instructional personnel	27	1,199,880	480,151	1,680,031	-	-	-	1,680,031	1,461,547
Non-instructional personnel	9	311,992	74,579	386,571	6,834	-	6,834	393,405	401,450
TOTAL SALARIES AND STAFF	42	1,679,345	609,277	2,288,622	260,295	-	260,295	2,548,917	2,333,498
Fringe benefits & payroll taxes		359,190	130,317	489,507	55,674	-	55,674	545,181	476,857
Other purchased / professional / consulting services		24,608	7,431	32,039	66,151	-	66,151	98,190	77,627
Accounting / audit services		-	-	-	153,900	-	153,900	153,900	151,300
Supplies / materials		33,467	10,107	43,574	-	-	-	43,574	74,600
Student services		14,217	4,293	18,510	-	-	-	18,510	36,869
Office expense		13,462	4,884	18,346	2,086	-	2,086	20,432	21,820
Technology		18,720	6,792	25,512	2,902	-	2,902	28,414	30,837
Insurance		28,005	10,160	38,165	4,341	-	4,341	42,506	41,414
Staff development		3,849	1,396	5,245	4,944	-	4,944	10,189	15,045
Marketing / recruitment		3,190	1,157	4,347	494	-	494	4,841	2,117
Food service		124,110	37,479	161,589	-	-	-	161,589	153,753
Equipment rental		22,187	8,050	30,237	3,439	-	3,439	33,676	46,366
Depreciation and amortization		33,412	12,122	45,534	5,179	-	5,179	50,713	38,438
Repairs and maintenance		31,303	11,357	42,660	4,852	-	4,852	47,512	78,031
Building and land rent / lease / facility finance interest		270,381	98,096	368,477	41,909	-	41,909	410,386	420,741
Utilities		27,018	9,803	36,821	4,188	-	4,188	41,009	37,126
Other		28,564	9,965	38,529	7,273	-	7,273	45,802	7,959
		$ 2,715,028	$ 972,686	$ 3,687,714	$ 617,627	$ -	$ 617,627	$ 4,305,341	$ 4,044,398

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, 2018
(With Comparative Totals For 2017)

	Year ended June 30,	
	2018	2017
CASH FLOWS - OPERATING ACTIVITIES		
Change in net assets	$ (161,124)	$ 134,514
Adjustments to reconcile change in net assets to net cash (used for) provided from operating activities:		
Depreciation and amortization	50,713	38,438
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	69,277	(62,273)
Prepaid expenses	(97,553)	62,504
Accounts payable	(10,002)	8,482
Accrued payroll and benefits	47,252	(27,771)
Deferred revenue	(11,195)	(2,211)
Deferred lease incentive	(26,334)	26,334
Deferred lease liability	18,220	18,220
NET CASH (USED FOR) PROVIDED FROM OPERATING ACTIVITIES	(120,746)	196,237
CASH FLOWS - INVESTING ACTIVITIES		
Purchases of property and equipment	(24,698)	(138,185)
NET CASH USED FOR INVESTING ACTIVITIES	(24,698)	(138,185)
NET (DECREASE) INCREASE IN CASH	(145,444)	58,052
Cash at beginning of year	154,797	96,745
CASH AT END OF YEAR	$ 9,353	$ 154,797

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

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 May 25, 2017, 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 through July 31, 2022 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, 2018 or 2017.

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, 2018 or June 30, 2017.

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.

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

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.

Contributions are recognized as revenue in the year the pledge is received and documented.

Contributions

Contributions and unconditional promises to give 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. The amount in escrow was $75,000 at June 30, 2018 and 2017.

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, 2018 or 2017.

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

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 three to fifteen years. Leasehold improvements are being amortized over the term of the lease.

Deferred lease incentive

The Charter School received a lease buyout incentive in conjunction with a new equipment lease. In accordance with GAAP, the Charter School recorded a deferred lease incentive and is recognizing the lease incentive on a straight-line basis over the lease term.

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 paid under the lease as a deferred lease liability.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant at which time it is recognized as revenue.

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 31, 2015 through June 30, 2018 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 and special education services that were provided for the students from the local district. The Charter School was unable to determine a value for these services.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution. There were no in-kind contributions received during the year ended June 30, 2018. The Charter School received contributed goods relative to science lab which were valued at $67,067 and are included in contributions in the accompanying statement of activities and changes in net assets for the year ended June 30, 2017.

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

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated $4,800 and $2,100 for the years ended June 30, 2018 and 2017, respectively.

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, 2017

The financial statements include certain prior year summarized comparative information in total but not by net asset class or 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, 2017, 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 22, 2018**,** which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note G.

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 $408,220 and $411,220, for the years ended June 30, 2018 and 2017, respectively.

The future minimum payments on this agreement are as follows:

Year ending June 30,	Amount
2019	$ 400,000
2020	408,000
2021	408,160
2022	408,163
2023	408,163
Thereafter	2,040,816
	$ 4,073,302

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, 2018 and 2017.

NOTE C: OPERATING LEASE

The Charter School leased office equipment under a non-cancelable lease agreement which expired in June 2018. In April 2017, the Charter School entered into a buyout agreement for the previous office equipment and entered into another non-cancelable lease agreement expiring in March 2022. Lease expense was approximately $26,000 and $30,000 for the years ended June 30, 2018 and 2017, respectively. The future minimum payments on these agreements are as follows:

Year ending June 30,	Amount
2019	$ 25,020
2020	25,020
2021	25,020
2022	18,765
	$ 93,825

NOTE D: RETIREMENT PLAN

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, 2018 or 2017.

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, 2018 and 2017, approximately 79% and 96%, respectively, of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2018 and 2017, 92% 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.

NOTE G: SUBSEQUENT EVENT

In August 2018, the New York State Education Department (NYSED) notified the Charter School that it had over-allocated $22,070 in Title IIA funding to the Charter School for the year ended June 30, 2018. NYSED will reduce the Charter School's Title IIA funding for a period of up to five years to recoup the over-allocated funding. The Charter School has not accounted for this over-allocated funding as a liability as of June 30, 2018.

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, 2018 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 22, 2018.

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.

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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*.

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, Barr & Co. LLP

Rochester, New York
October 22, 2018

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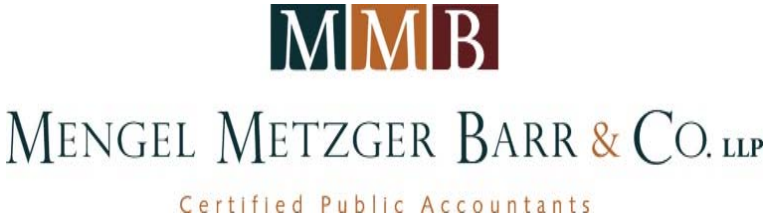
HARBOR SCIENCE AND ARTS CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2018



MMB
MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

October 22, 2018

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, 2018, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.

- *Probable*. The future event or events are likely to occur.

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.

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WE VALUE YOUR FUTURE

During the course of our audit of the financial statements of the Charter School as of and for the year ended June 30, 2018, we observed the entity's significant accounting policies and procedures and certain business, financial and administrative practices. As a result of our observations, we suggest you consider the following comments which we do not consider to be significant deficiencies or material weaknesses:

Updating the Financial Policies and Procedures Manual (FPP):
During out audit, we noted the FPP is not up to date and does not correctly reflect who is performing specific controls.

Recommendation
We recommend the FPP be updated to reflect the actual roles, policies and procedures in place. The Charter School could risk having duties performed twice, or duties not being performed at all.

Employee Reimbursement:
During our audit, we noted one instance where an employee reimbursement check was cut before the reimbursement form was approved.

Recommendation
We recommend the Charter School follow its FPP to ensure proper approval is obtained before reimbursement checks are cut. This will reduce the risk of unauthorized expenses being reimbursed.

* * * * *

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 Kevin Kopp.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

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HARBOR SCIENCE AND ARTS CHARTER SCHOOL

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2018

MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

MMB
MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

October 22, 2018

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, 2018, and have issued our report thereon dated October 22, 2018. 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 May 10, 2018, 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.

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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 the year ended June 30, 2018. 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 allocation of costs for the statement of functional 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.

Significant Difficulties Encountered during the Audit

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

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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. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material either individually or in the aggregate, to the financial statements as a whole.

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 Kevin Kopp 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, Finance Committee 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

MENGEL, METZGER, BARR & CO. LLP

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132/142 East 111th Street, New York, NY 10029
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Mengel, Metzger, Barr & Co. LLP
Certified Public Accountants
100 Chestnut Street, Suite 1200
Rochester, New York 14604

This representation letter is provided in connection with your audits of the financial statements of Harbor Science and Arts Charter School, which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 10, 2018, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- We have complied with all contractual agreements, grants, and donor restrictions.
- We have maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.
- We have accurately presented the entity's position regarding taxation and tax-exempt status.
- The bases used for allocation of functional expenses are reasonable and appropriate.
- We have included in the financial statements all assets and liabilities under the entity's control.
- We have designed, implemented, and maintained adequate internal controls over the receipt and recording of contributions.

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- Classifications between net asset classes are proper.
- Methods and significant assumptions used by management to determine fair values, their consistency in application, and the completeness and adequacy of fair value information for financial statement measurement and disclosure purposes are appropriate.
- We have reviewed the Organization's draft financial statements prepared by you based upon financial information we provided to you. We have reviewed all supporting schedules and accept full responsibility for the Organization's financial statements prepared in accordance with U.S. GAAP.
- We have considered the accounting and reporting requirements of FASB ASC 740-10. We believe there are no material liabilities (or reduction in amounts refundable) required for unrecognized tax benefits related to our tax positions, as defined and described in FASB ASC 740-10-20.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
  - Minutes of the meetings of the Board of Trustees and other committees, or summaries of actions of recent meetings for which minutes have not yet been prepared;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
- We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Very truly yours,

HARBOR SCIENCE AND ARTS CHARTER SCHOOL

M. Johnson

Mark Johnson, Principal