

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

FINANCIAL STATEMENTS

**PERIOD FROM FEBRUARY 9, 2010
(DATE OF INCEPTION)
TO JUNE 30, 2011**

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Cultural Arts Academy Charter School At Spring Creek

We have audited the accompanying statement of financial position of Cultural Arts Academy Charter School At Spring Creek (the "School") as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the period from February 9, 2010 (date of inception) through June 30, 2011. 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 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cultural Arts Academy Charter School At Spring Creek as of June 30, 2011 and the changes in its net assets and its cash flows for the period from February 9, 2010 (date of inception) through June 30, 2011, 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 28, 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 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MBAF-ERE CPAs, LLC

New York, NY
October 28, 2011

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK
STATEMENT OF FINANCIAL POSITION

June 30, 2011

Assets:		\$		47,784	
Cash				97,920	
Grants and other receivables				101,375	
Property and equipment, net					
Total Assets		\$		247,079	
Liabilities and Net Deficit:					
Liabilities:					
Accounts payable and accrued expenses		\$		74,613	
Accrued salaries and other payroll related expenses				270,381	
Deferred rent				180,000	
Due to NYCDOE				20,407	
Loan payable				30,000	
Total Liabilities				575,401	
Net deficit - unrestricted				(328,322)	
Total Net Deficit				(328,322)	
Total Liabilities and Net Deficit		\$		247,079	

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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF ACTIVITIES

**For the Period From Inception
(February 9, 2010) to June 30, 2011**

Operating revenue:	
State and local per pupil operating revenue	\$ 1,793,323
Government grants and contracts	120,324
Total operating revenue	1,913,647
Expenses:	
Program services	1,872,519
Management and general	603,325
Fundraising	24,783
Total operating expenses	2,500,627
Deficiency from school operations	(586,980)
Support and other income:	
Contributions, grants and other income	127,408
In-kind contributions	131,250
Total support and other income	258,658
Change in net assets - unrestricted	(328,322)
Net assets – unrestricted beginning of period	-
Net deficit – unrestricted end of period	\$ (328,322)

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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF FUNCTIONAL EXPENSES

For the Period From Inception (February 9, 2010) to June 30, 2011

	Program	Management	Fundraising	Total
	Services	and General		2011
Salaries and wages	\$ 1,099,358	\$ 341,256	\$ 18,000	\$ 1,458,614
Payroll taxes and employee benefits	222,543	69,081	6,783	298,407
Accounting fees	-	95,973	-	95,973
Legal fees	-	30,667	-	30,667
Classroom supplies and instructional materials	102,986	-	-	102,986
Contracted services - teachers	67,006	-	-	67,006
Insurance	20,349	6,387	-	26,736
Bank charges	-	40	-	40
Office expenses	27,716	8,699	-	36,415
Parent activities	5,893	-	-	5,893
Postage and delivery	449	141	-	590
Rent	144,000	36,000	-	180,000
Repairs and maintenance	5,078	1,594	-	6,672
Student field trips	29,520	-	-	29,520
Other expenses	16,371	5,138	-	21,509
In-kind services	131,250	-	-	131,250
Depreciation	-	8,349	-	8,349
Total expenses	\$ 1,872,519	\$ 603,325	\$ 24,783	\$ 2,500,627

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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF CASH FLOWS

For the Period From Inception (February 9, 2010) to June 30, 2011

Cash flows from operating activities:	
Change in net deficit	\$ (328,322)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:	
Depreciation	8,349
Changes in operating assets and liabilities:	
Grants and other receivables	(97,920)
Accounts payable and accrued expenses	74,613
Accrued salaries and other payroll related expenses	270,381
Deferred rent	180,000
Due to NYCDOE	20,407
Net cash provided by operating activities	127,508
Cash flows from investing activities:	
Purchase of property and equipment	(109,724)
Net cash used in Investing activities	(109,724)
Cash flows from financing activities:	
Proceeds from loan	30,000
Net cash provided by financing activities	30,000
Net increase in cash	47,784
Cash - beginning of period	-
Cash - end of period	\$ 47,784

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:	
Interest	\$ -
Income taxes	\$ -

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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. NATURE OF THE ORGANIZATION:

Cultural Arts Academy Charter School At Spring Creek (the "School") is a public charter school, as defined by Article 56 of The New York State Education Law, which provides education based on an academically rigorous arts education program that promotes superior scholarship and strong cultural arts proficiency. On February 9, 2010, the Board of Regents of the University of the State of New York (the State) granted the School a provisional charter valid for a term of five years and renewable upon expiration. The School operates under this charter and the State is responsible for oversight of the School's operations. The School is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and New York State's Not-for-Profit law. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

In fiscal year 2011, the School's inaugural year, it operated classes for students in kindergarten and first grades. During each of the next four years, one additional grade level will be added until the School operates classes for students in kindergarten through fifth grades.

Enrollment of available classroom slots is open to all potential student candidates with preference given to children residing in the district of southeast Brooklyn. A lottery is held to award these available spots. If one child in a family is selected in the lottery then all eligible children in the family are accepted for enrollment.

The New York City Department of Education ("NYCDOE") provides free transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting.

The classification of the School's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the 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.

These classes 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 are 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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK NOTES TO FINANCIAL STATEMENTS June 30, 2011

temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

Cash

For the purpose of presentation in the statement of cash flows, cash consists of one checking account.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. At June 30, 2011, the School had \$77,513 of grants and other receivables that are expected to be collected within one year and recorded at net realizable value. The School has determined that no allowance for uncollectible accounts for contributions receivable is necessary as of June 30, 2011. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

The carrying value of the grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2011.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a \$10,000 threshold above which assets are capitalized. Property and equipment acquired with certain government contract funds is recorded as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property.

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the period ended June 30, 2011.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and 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 School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

expenditures have not been incurred would be reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Donated Goods and Services

The School receives contributed goods and services that are an integral part of its operations. Such goods and services are only recorded as contributions in-kind at their fair value, provided they meet the criteria for recognition.

Advertising

The School expenses advertising costs as incurred. The School had no advertising costs for the period ended June 30, 2011.

Deferred Rent Expense

In accordance with accounting principles generally accepted in the United States of America, rent expense is recognized on a straight-line basis over the life of the lease, including future escalations of rent, rather than in accordance with lease payments. Deferred rent expense represents the adjustment to future rents as a result of using the straight-line method.

Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, all costs and expenses incurred have been allocated among the programs and supporting services classifications based upon benefits received.

Estimates

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 28, 2011 which is the date the financial statements were available to be issued.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Should there be interest on underpayments of income tax, the School would classify it as "Interest Expense." The School would classify penalties in connection with underpayments of tax as "Other Expense."

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts filed. Management believes that its nonprofit status would be sustained upon examination.

The School files informational returns in the United States federal and New York State jurisdictions. All informational returns that have been filed in these jurisdictions are subject to audit.

3. **PROPERTY AND EQUIPMENT:** Property and equipment consist of the following as of June 30, 2011:

	Estimated Useful Lives
Furniture and fixtures	\$ 91,821 7 years
Computers hardware and software	17,903 5 years
	109,724
Less: accumulated depreciation	(8,349)
	<u>\$ 101,375</u>

Depreciation expense for the period ended June 30, 2011 was \$8,349.

4. **RELATED PARTY TRANSACTIONS:**

The School has a five year operating lease agreement with Christian Cultural Center Inc. ("CCC"), a not-for-profit organization, which commenced on July 1, 2010 and expires on June 30, 2015. The lease has escalating amounts of occupancy square footage from 15,000 square feet in 2011 to 28,000 square feet in 2015, as defined in the lease agreement. The chief executive officer of CCC is a founding member and board member of the School. No rent was paid during the first fiscal year. The first installment of rent will be paid on July 1, 2011, the commencement date of the second fiscal year.

Future minimum lease payments are as follow:

Year	Amount	Square Footage
2012	\$ 240,000	16,000
2013	300,000	20,000
2014	360,000	24,000
2015	420,000	28,000
Total	<u>\$ 1,320,000</u>	

CCC is committed to support the School and its cash flow needs.

5. **LOAN PAYABLE:**

On June 30, 2011, the School obtained a \$30,000 loan from CCC at an interest rate of 4% per annum. The loan is due in full on July 30, 2011. The outstanding principal at June 30, 2011 was \$30,000. In July 2011, the School repaid the loan with interest it had outstanding at year end with CCC.

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK
NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

**6. RISK
MANAGEMENT:**

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

7. CONCENTRATIONS:

- A. Financial instruments that potentially subject the school to concentrations of credit risk consist principally of cash deposits. Interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Non-interest bearing accounts are fully insured without limit through December 31, 2012.
- B. The School received approximately 72% of its total revenue from per pupil funding from NYCDOE.
- C. One grantor accounted for 100% of grants and other receivables as of June 30, 2011.
- D. Three vendors accounted for approximately 65% of accounts payable as of June 30, 2011.

**8. SUBSEQUENT
EVENTS:**

In September 2011, the School implemented a 403(b) plan (the "Plan") with Intac Actuarial Services for its employees. Employees must be at least twenty-one years old and have at least one thousand hours of service at the School before they can become eligible to participate in the Plan. The School will make discretionary contributions to the Plan. The Plan has a six-year graded vesting schedule at which point employees become fully vested.

In October 2011, the School entered into an escrow agreement with Larry H. Weiss, Esq. to act as an escrow agent for the School and submitted \$25,000 to be placed into the account. The School is required, pursuant to the terms of its charter, to keep on deposit a fund sufficient to cover expenses in the event the School's charter is terminated, cancelled, or not renewed.



CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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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 Trustees
Cultural Arts Academy Charter School At Spring Creek

We have audited the financial statements of Cultural Arts Academy Charter School At Spring Creek (the "School") for the period from February 9, 2010 (date of inception) to the period ended June 30, 2011, and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School in a separate letter dated October 28, 2011.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the New York State Education Department and the Board of Regents 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.

MBTF-ERE CPAs, LLC

New York, NY
October 28, 2011