

CULTURAL ARTS ACADEMY CHARTER SCHOOL
AT SPRING CREEK

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Cultural Arts Academy Charter School at Spring Creek (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 School'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 School'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.

An independent member of Baker Tilly International

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 3 to the financial statements, the revenues of the School declined below expectations. The School has a working capital deficit of approximately \$396,000 and has a net loss of approximately \$260,000. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2019, on our consideration of Cultural Arts Academy Charter School at Spring Creek's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cultural Arts Academy Charter School at Spring Creek's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 16, 2019

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

ASSETS	2019	2018
Cash	\$ 95,382	\$ 7,644
Cash - restricted	75,221	75,191
Grants receivable	222,702	325,229
Property and equipment, net	25,126	35,896
Prepaid expenses and other assets	20,000	20,000
TOTAL ASSETS	\$ 438,431	\$ 463,960
LIABILITIES AND NET DEFICIT		
LIABILITIES		
Accounts payable and accrued expenses	\$ 145,533	\$ 161,734
Accrued salaries and other payroll related expenses	586,076	369,401
Due to NYC Department of Education	58,032	23,963
	789,641	555,098
NET DEFICIT		
Net deficit - without donor restrictions	(351,210)	(91,138)
TOTAL LIABILITIES AND NET DEFICIT	\$ 438,431	\$ 463,960

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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUE WITHOUT DONOR RESTRICTIONS		
State and local per pupil operating revenue	\$ 3,910,174	\$ 4,262,328
Government grants and contracts	231,982	389,556
	<u>4,142,156</u>	<u>4,651,884</u>
EXPENSES		
Program services:		
General education	3,923,781	4,158,724
Special education	392,006	255,829
Management and general	690,542	828,514
Fundraising	50,596	24,853
	<u>5,056,925</u>	<u>5,267,920</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(914,769)</u>	<u>(616,036)</u>
SUPPORT AND OTHER INCOME		
Contributions	621,000	291,000
Other income	33,697	84,873
	<u>654,697</u>	<u>375,873</u>
CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS	(260,072)	(240,163)
NET DEFICIT - BEGINNING OF YEAR	<u>(91,138)</u>	<u>149,025</u>
NET DEFICIT - END OF YEAR	<u>\$ (351,210)</u>	<u>\$ (91,138)</u>

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 YEAR ENDED JUNE 30, 2019

	No. of Positions	Program Services			Supporting Services			2019
		General Education	Special Education	Total Program	Management and General	Fundraising	Total	
Personnel services costs:								
Instructional personnel	50	\$ 1,822,347	\$ 182,063	\$ 2,004,410	\$ 266,841	\$ 27,177	\$ 294,018	\$ 2,298,428
Non-instructional personnel	19	784,042	78,330	862,372	114,805	11,692	126,497	988,869
Total salaries and wages	69	2,606,389	260,393	2,866,782	381,646	38,869	420,515	3,287,297
Payroll taxes and employee benefits		541,923	54,141	596,064	79,352	8,082	87,434	683,498
Professional development		33,960	3,391	37,351	4,973	506	5,479	42,830
Audit and accounting fees		-	-	-	124,227	-	124,227	124,227
Professional fees		51,731	5,168	56,899	-	-	-	56,899
Curriculum and classroom expenses		30,487	3,046	33,533	-	-	-	33,533
Supplies and materials		46,730	4,669	51,399	6,843	697	7,540	58,939
Student services		70,921	7,085	78,006	4,325	441	4,766	82,772
Postage, printing, and copying		486	49	535	71	7	78	613
Insurance		60,915	6,086	67,001	8,920	908	9,828	76,829
Information technology		5,397	539	5,936	790	80	870	6,806
Non-capitalized equipment and furnishings		120	12	132	18	2	20	152
Occupancy and facility costs		407,386	40,700	448,086	49,787	-	49,787	497,873
Telephone		27,868	2,784	30,652	4,081	416	4,497	35,149
Depreciation		8,540	853	9,393	1,250	127	1,377	10,770
Bad debt expense		-	-	-	19,730	-	19,730	19,730
Office expense		30,928	3,090	34,018	4,529	461	4,990	39,008
		\$ 3,923,781	\$ 392,006	\$ 4,315,787	\$ 690,542	\$ 50,596	\$ 741,138	\$ 5,056,925

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	No. of Positions	Program Services			Supporting Services			2018
		General Education	Special Education	Total Program	Management and General	Fundraising	Total	
Personnel services costs:								
Instructional personnel	49	\$ 1,606,500	\$ 98,826	\$ 1,705,326	\$ 289,435	\$ 11,352	\$ 300,787	\$ 2,006,113
Non-instructional personnel	29	995,634	61,248	1,056,882	179,378	7,035	186,413	1,243,295
Total salaries and wages	78	2,602,134	160,074	2,762,208	468,813	18,387	487,200	3,249,408
Payroll taxes and employee benefits		628,344	38,653	666,997	113,208	4,440	117,648	784,645
Professional development		55,254	3,399	58,653	9,955	390	10,345	68,998
Legal fees		-	-	-	845	-	845	845
Audit and accounting fees		-	-	-	122,892	-	122,892	122,892
Professional fees		51,774	3,185	54,959	-	-	-	54,959
Curriculum and classroom expenses		74,049	4,555	78,604	-	-	-	78,604
Supplies and materials		40,457	2,489	42,946	7,289	286	7,575	50,521
Student services		128,324	7,894	136,218	9,579	376	9,955	146,173
Postage, printing, and copying		950	58	1,008	171	7	178	1,186
Insurance		55,875	3,437	59,312	10,067	395	10,462	69,774
Information technology		902	55	957	163	6	169	1,126
Non-capitalized equipment and furnishings		19,683	1,211	20,894	3,546	139	3,685	24,579
Occupancy and facility costs		440,543	27,101	467,644	51,960	-	51,960	519,604
Telephone		30,424	1,872	32,296	5,481	215	5,696	37,992
Depreciation		15,310	942	16,252	2,758	108	2,866	19,118
Bad debt expense		-	-	-	19,138	-	19,138	19,138
Office expense		14,701	904	15,605	2,649	104	2,753	18,358
		\$ 4,158,724	\$ 255,829	\$ 4,414,553	\$ 828,514	\$ 24,853	\$ 853,367	\$ 5,267,920

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 4,933,449	\$ 4,895,710
Cash paid to employees and suppliers	<u>(4,845,681)</u>	<u>(5,027,601)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>87,768</u>	<u>(131,891)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>-</u>	<u>(31,474)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>-</u>	<u>(31,474)</u>
NET INCREASE (DECREASE) IN CASH	87,768	(163,365)
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	<u>82,835</u>	<u>246,200</u>
CASH AND CASH - RESTRICTED - END OF YEAR	<u>\$ 170,603</u>	<u>\$ 82,835</u>
Reconciliation of change in net deficit to net cash provided by (used in) operating activities:		
Change in net deficit	\$ (260,072)	\$ (240,163)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Depreciation	10,770	19,118
Bad debt expense	19,730	19,138
Deferred rent	-	(13,238)
Changes in operating assets and liabilities:		
Grants receivable	82,797	(131,278)
Prepaid expenses and other assets	-	24,780
Accounts payable and accrued expenses	(16,201)	63,468
Accrued salaries and other payroll related expenses	216,675	146,191
Due to NYC Department of Education	<u>34,069</u>	<u>(19,907)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 87,768</u>	<u>\$ (131,891)</u>
Cash and cash - restricted consist of:		
Cash	\$ 95,382	\$ 7,644
Cash - restricted	<u>75,221</u>	<u>75,191</u>
Total	<u>\$ 170,603</u>	<u>\$ 82,835</u>

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, 2019 AND 2018

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. On April 4, 2017, the charter was extended until June 30, 2020. The School operates under this charter and the State is responsible for oversight of the School's operations.

On November 10, 2010, the School, as determined by the Internal Revenue Service, was approved for federal income tax exemption under Section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC. It is also currently exempt under a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(ii) of the IRC. The School's primary sources of income are from government funding.

In fiscal years 2019 and 2018, the School operated classes for students in kindergarten through fifth grade.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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 two classes of net assets – with donor restrictions or without donor restrictions – be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. Certain donor-imposed restrictions are perpetual in nature.

Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. This net asset category includes both contributions not subject to donor restrictions and exchange transactions, such as state and local per pupil operating revenue.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash - Restricted

Cash - restricted is an escrow account of \$75,221 and \$75,191 at June 30, 2019 and 2018, respectively, which is held aside for contingency purposes as required by the Board of Regents of the University of the State of New York.

Grants Receivable

Grants receivable represent amounts due from federal and state grants. Grants receivable are expected to be collected within one year, are recorded at net realizable value, and amount to \$222,702 and \$325,229 at June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, the School wrote off receivables of \$19,730 and \$19,138, respectively.

Revenue Recognition

Revenue from state and local governments 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 expenditures have not been incurred, if any, are reflected as refundable advances from state and local government grants in the accompanying statements 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. Donated goods are recognized if the goods provide a benefit to the School and would have otherwise been purchased. There were no donated goods and services for the years ended June 30, 2019 and 2018.

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets (Note 4). The School has established a \$10,000 threshold above which assets are capitalized. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Impairment

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 years ended June 30, 2019 and 2018.

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. Expenses that can be directly identified with the program or supporting service are reported as expenses of those functional areas. Other expenses are allocated among program and supporting services based upon benefits received.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 16, 2019, 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, disclosure, and transition.

The School files an informational return in the federal jurisdiction. With few exceptions, the School is no longer subject to federal income tax examinations for fiscal years before 2016.

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.

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 income tax as other expense.

The School is subject to tax reportable on Form 990T consisting of unrelated business income if they have provided pre-tax transportation benefits to employees.

Adopted Accounting Pronouncement

Financial Statement Presentation

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the School’s financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the indirect method.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

In June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance-sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The School is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will not have a material effect on the School's financial condition, results of operations, or cash flows, though such an effect is possible.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the School's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The School is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021, with early application permitted.

3. LIQUIDITY MANAGEMENT AND GOING CONCERN

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The School's management meets monthly to address projected cash flows to meet its operational expenditures. The School's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

3. LIQUIDITY MANAGEMENT AND GOING CONCERN (CONTINUED)

	2019	2018
Cash	\$ 95,382	\$ 7,644
Cash - restricted	75,221	75,191
Grants receivable	<u>222,702</u>	<u>325,229</u>
Total financial assets	393,305	408,064
Less amount unavailable for general expenditures within one year due to:		
Restricted by contract with time or purpose	<u>(75,221)</u>	<u>(75,191)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 318,084</u>	<u>\$ 332,873</u>

At June 30, 2019 and 2018, the School has no board-designated net assets.

At June 30, 2019, the School had a working capital deficit of approximately \$396,000 driven primarily by rent and facility costs paid to Christian Cultural Center (“CCC”), which is further explained in Note 5. The School had a loss of approximately \$260,000 for the year ending June 30, 2019, and a deteriorating cash position. In order to meet this liquidity shortfall, management has reviewed its operations and capital outlays for savings. CCC, a related party that shares board members with the School, is committed to provide financial support through November 1, 2020. It is also seeking financing and additional contributions.

There is no assurance that some or all of these actions will be sufficient to allow the School to continue as a going concern. The School is confident that with financial support from CCC, it will be able to continue operating under normal conditions through November 1, 2020. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2019	2018	Estimated Useful Lives
Furniture and fixtures	\$ 144,111	\$ 144,111	7 years
Computer hardware and software	<u>105,038</u>	<u>105,038</u>	5 years
	249,149	249,149	
Less: accumulated depreciation	<u>(224,023)</u>	<u>(213,253)</u>	
	<u>\$ 25,126</u>	<u>\$ 35,896</u>	

Depreciation expense for the years ended June 30, 2019 and 2018 was \$10,770 and \$19,118, respectively.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

5. RELATED PARTY TRANSACTIONS

The School has an operating lease agreement with CCC, a not-for-profit organization, which commenced on July 1, 2010 and expires on June 30, 2021. The School pays a monthly rent in the amount of \$38,245 from July 1, 2018 through June 30, 2021. Rent expense for the years ended June 30, 2019 and 2018 was \$458,945 and \$445,707, respectively, which is included in the accompanying statements of functional expenses under occupancy and facility costs. The chief executive officer of CCC is a founding member and board member of the School.

Future minimum rental lease payments are as follows:

June 30,	
2020	\$ 458,945
2021	<u>458,945</u>
	<u>\$ 917,890</u>

During the years ended June 30, 2019 and 2018, the CCC contributed \$620,000 and \$280,000, respectively.

6. PENSION PLAN

Effective September 1, 2011, the School adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan on the first day of employment or the first day of the first, fourth, seventh, or tenth month of the Plan year, if they are at least 21 years in age. The Plan provides for the School to make discretionary contributions. The School contribution does not become vested until the participant's sixth year when it becomes fully vested. The School did not contribute to the Plan for the year ended June 30, 2019. For the year ended June 30, 2018, the School contributed \$21,084.

7. 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 help 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. The accompanying financial statements make no provision for the possible disallowance or refund.

The School's charter is up for renewal on June 30, 2020. Although the School anticipates that this renewal will be granted by the authorizers, no assurance can be provided that this will occur.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

8. CONCENTRATIONS

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash deposits at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation insured limits of \$250,000.

The School received approximately 82% and 85% of its total revenue from per pupil funding from the NYCDOE during the years ended June 30, 2019 and 2018, respectively.

Two grantors accounted for approximately 90% and 93% of grants receivable at June 30, 2019 and 2018, respectively.

Two vendors accounted for approximately 60% and 72% of accounts payable at June 30, 2019 and 2018, respectively.

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

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

We have audited, 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, the financial statements of Cultural Arts Academy Charter School at Spring Creek (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, 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 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 School'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 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 other matters that we reported to management of the School in a separate letter dated October 16, 2019.

An independent member of Baker Tilly International



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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
October 16, 2019

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

Financial Statement Finding

Finding No. 2018-01

Condition:

The School is required to be in compliance with the New York State Education Department ("NYSED") requirements. The teacher certification exemption allows charter schools to have up to 10 uncertified teachers and an additional 5 uncertified teachers if the teachers are teaching science, technology, engineering, and math ("STEM") subjects. The School had 18 teachers that were uncertified, none of whom taught STEM subjects.

Current Status:

The finding has been corrected.