



**CULTURAL ARTS ACADEMY  
CHARTER SCHOOL AT SPRING CREEK**

**FINANCIAL STATEMENTS**  
JUNE 30, 2021 AND 2020

# 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  
Brooklyn, New York

### ***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 statement of financial position as of June 30, 2021, and the related statements of activities, 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 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.



### ***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, 2021, and the changes in its net deficit and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter Regarding Going Concern***

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School has a net deficit of approximately \$929,000. The School had a loss of approximately \$614,000 for the year ending June 30, 2021. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. 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 Matter***

The financial statements of Cultural Arts Academy Charter School at Spring Creek as of and for the year ended June 30, 2020 were audited by MBAF CPAs, LLC ("MBAF"), whose partners and professional staff joined BDO USA, LLP as of January 16, 2021, and has subsequently ceased operations. MBAF expressed an unmodified opinion on those statements in their report dated October 27, 2020.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2021, 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 solely 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 effectiveness of the School's 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.

*BDO USA, LLP*

New York, NY  
October 28, 2021

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK**

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
Cash	\$ 9,652	\$ 599,534
Cash - restricted	75,253	75,245
Grants receivable	324,080	242,248
Prepaid expenses and other assets	20,000	20,000
Property and equipment, net	151,374	40,974
<b>TOTAL ASSETS</b>	<b>\$ 580,359</b>	<b>\$ 978,001</b>
<b>LIABILITIES AND NET DEFICIT</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 250,573	\$ 109,477
Accrued salaries and other payroll related expenses	620,500	513,011
Due to NYC Department of Education	-	32,313
Loan payable - Paycheck Protection Program	638,717	638,717
	1,509,790	1,293,518
<b>NET DEFICIT</b>		
Net deficit - without donor restrictions	(929,431)	(315,517)
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b>\$ 580,359</b>	<b>\$ 978,001</b>

See accompanying notes to the financial statements.

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK**

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
<b>CHANGES IN NET DEFICIT WITHOUT DONOR RESTRICTIONS</b>		
<b>OPERATING REVENUE WITHOUT DONOR RESTRICTIONS</b>		
State and local per pupil operating revenue	\$ 4,185,543	\$ 4,478,860
Government grants and contracts	249,350	179,563
	<u>4,434,893</u>	<u>4,658,423</u>
<b>EXPENSES</b>		
Program services:		
General education	3,958,088	3,669,046
Special education	291,483	366,558
Management and general	923,036	630,413
Fundraising	48,617	46,610
	<u>5,221,224</u>	<u>4,712,627</u>
<b>DEFICIT FROM SCHOOL OPERATIONS</b>	<u>(786,331)</u>	<u>(54,204)</u>
<b>SUPPORT AND OTHER INCOME</b>		
Contributions	158,500	58,500
Other income	13,917	31,397
	<u>172,417</u>	<u>89,897</u>
<b>CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS</b>	(613,914)	35,693
<b>NET DEFICIT - BEGINNING OF YEAR</b>	<u>(315,517)</u>	<u>(351,210)</u>
<b>NET DEFICIT - END OF YEAR</b>	<u><b>\$ (929,431)</b></u>	<u><b>\$ (315,517)</b></u>

See accompanying notes to the financial statements.

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	No. of Positions	Program Services			Supporting Activities			2021
		General Education	Special Education	Total Program	Management and General	Fundraising	Total	
<b>Personnel services costs:</b>								
Instructional personnel	41	\$ 1,820,738	\$ 134,083	\$ 1,954,821	\$ 337,304	\$ 27,835	\$ 365,139	\$ 2,319,960
Non-instructional personnel	17	610,340	44,947	655,287	113,070	9,331	122,401	777,688
Total salaries and wages	58	2,431,078	179,030	2,610,108	450,374	37,166	487,540	3,097,648
Payroll taxes and employee benefits		537,065	39,550	576,615	99,495	8,211	107,706	684,321
Professional development		20,316	1,496	21,812	3,764	311	4,075	25,887
Legal fees		-	-	-	900	-	900	900
Audit and accounting fees		-	-	-	102,596	-	102,596	102,596
Professional fees		124,952	9,202	134,154	-	-	-	134,154
Curriculum and classroom expenses		20,483	1,508	21,991	-	-	-	21,991
Supplies and materials		23,840	1,756	25,596	4,417	364	4,781	30,377
Student services		78,291	5,766	84,057	6,334	523	6,857	90,914
Postage, printing, and copying		1,084	80	1,164	201	17	218	1,382
Insurance		50,301	3,704	54,005	9,319	769	10,088	64,093
Information technology		9,906	730	10,636	1,835	151	1,986	12,622
Non-capitalized equipment and furnishings		3,404	251	3,655	631	52	683	4,338
Occupancy and facility costs		588,511	43,339	631,850	70,206	-	70,206	702,056
Telephone		32,893	2,422	35,315	6,094	503	6,597	41,912
Depreciation		19,066	1,404	20,470	3,532	292	3,824	24,294
Bad debt expense		-	-	-	160,206	-	160,206	160,206
Other expense		16,898	1,245	18,143	3,132	258	3,390	21,533
		<b>\$ 3,958,088</b>	<b>\$ 291,483</b>	<b>\$ 4,249,571</b>	<b>\$ 923,036</b>	<b>\$ 48,617</b>	<b>\$ 971,653</b>	<b>\$ 5,221,224</b>

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	No. of Positions	Program Services			Supporting Activities			2020
		General Education	Special Education	Total Program	Management and General	Fundraising	Total	
<b>Personnel services costs:</b>								
Instructional personnel	46	\$ 1,536,634	\$ 153,519	\$ 1,690,153	\$ 225,004	\$ 22,916	\$ 247,920	\$ 1,938,073
Non-instructional personnel	16	846,652	84,585	931,237	123,973	12,626	136,599	1,067,836
Total salaries and wages	62	2,383,286	238,104	2,621,390	348,977	35,542	384,519	3,005,909
Payroll taxes and employee benefits		512,435	51,195	563,630	75,034	7,642	82,676	646,306
Professional development		47,957	4,791	52,748	7,022	715	7,737	60,485
Legal fees		-	-	-	245	-	245	245
Audit and accounting fees		-	-	-	118,163	-	118,163	118,163
Professional fees		52,264	5,222	57,486	-	-	-	57,486
Curriculum and classroom expenses		24,046	2,402	26,448	-	-	-	26,448
Supplies and materials		15,416	1,540	16,956	2,257	230	2,487	19,443
Student services		97,436	9,734	107,170	10,973	1,118	12,091	119,261
Postage, printing, and copying		642	64	706	94	10	104	810
Insurance		42,542	4,250	46,792	6,229	634	6,863	53,655
Information technology		587	59	646	86	9	95	741
Non-capitalized equipment and furnishings		3,726	372	4,098	546	56	602	4,700
Occupancy and facility costs		444,882	44,446	489,328	54,370	-	54,370	543,698
Telephone		25,182	2,516	27,698	3,687	376	4,063	31,761
Depreciation		6,469	646	7,115	947	96	1,043	8,158
Other expense		12,176	1,217	13,393	1,783	182	1,965	15,358
		<b>\$ 3,669,046</b>	<b>\$ 366,558</b>	<b>\$ 4,035,604</b>	<b>\$ 630,413</b>	<b>\$ 46,610</b>	<b>\$ 677,023</b>	<b>\$ 4,712,627</b>

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operating revenue and support	\$ 4,493,165	\$ 4,703,055
Cash paid to employees and suppliers	<u>(4,948,345)</u>	<u>(4,813,590)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(455,180)</u>	<u>(110,535)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(134,694)</u>	<u>(24,006)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Paycheck Protection Program loan	<u>-</u>	<u>638,717</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	(589,874)	504,176
<b>CASH AND CASH - RESTRICTED - BEGINNING OF YEAR</b>	<u>674,779</u>	<u>170,603</u>
<b>CASH AND CASH - RESTRICTED - END OF YEAR</b>	<u><b>\$ 84,905</b></u>	<u><b>\$ 674,779</b></u>
Reconciliation of change in net deficit to net cash used in operating activities:		
Change in net deficit	\$ (613,914)	\$ 35,693
Adjustments to reconcile change in net deficit to net cash used in operating activities:		
Depreciation	24,294	8,158
Bad debt expense	160,206	-
Changes in operating assets and liabilities:		
Grants receivable	(242,038)	(19,546)
Accounts payable and accrued expenses	141,096	(36,056)
Accrued salaries and other payroll related expenses	107,489	(73,065)
Due to NYC Department of Education	<u>(32,313)</u>	<u>(25,719)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u><b>\$ (455,180)</b></u>	<u><b>\$ (110,535)</b></u>
<b>Cash and cash - restricted consist of:</b>		
Cash	\$ 9,652	\$ 599,534
Cash - restricted	<u>75,253</u>	<u>75,245</u>
<b>Total</b>	<u><b>\$ 84,905</b></u>	<u><b>\$ 674,779</b></u>

See accompanying notes to the financial statements.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

#### 1. NATURE OF THE ORGANIZATION

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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 received an extension to their charter term to June 30, 2023. 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.

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 School operates classes for students in kindergarten through fifth grade.

#### 2. LIQUIDITY AND GOING CONCERN

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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 statements of financial position date for general expenditures are as follows:

June 30,	2021	2020
Cash	\$ 9,652	\$ 599,534
Cash - restricted	75,253	75,245
Grants receivable	<u>324,080</u>	<u>242,248</u>
Total financial assets	408,985	917,027
Less amounts unavailable for general expenditures within one year due to:		
Restricted by contract	<u>(75,253)</u>	<u>(75,245)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 333,732</u>	<u>\$ 841,782</u>

The financial statements have been prepared assuming that the School will continue as a going concern, meaning the School will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

#### 2. LIQUIDITY AND GOING CONCERN (CONTINUED)

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The School has a net deficit of approximately \$929,000 at June 30, 2021. The School had a loss of approximately \$614,000 for the year ending June 30, 2021, and a deteriorating cash position. These factors create substantial doubt on the School's ability to continue as a going concern. In order to meet this liquidity shortfall, management has reviewed its operations and capital outlays for savings. Christian Cultural Center ("CCC"), a related party that shares board members with the School, is committed to providing financial support through November 1, 2022. It is also seeking financing and additional contributions. The School is confident that with financial support from CCC, it will be able to continue operating under normal conditions through November 1, 2022. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### 3. SIGNIFICANT ACCOUNTING POLICIES

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##### 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, and are, therefore, available for general operations.

##### Cash - Restricted

Cash - restricted is an escrow account of \$75,253 and \$75,245 at June 30, 2021 and 2020, respectively, which is held aside under the provisions of the School's charter to pay for legal and audit expenses that would be associated with a dissolution should it occur, as required by the New York State Education Department.

##### Grants Receivable

Grants receivable represent unconditional promises by government agencies and donors. Grants receivable that are expected to be collected within one year and are recorded at net realizable value amount to \$324,080 and \$242,248 at June 30, 2021 and 2020, respectively. The School wrote off receivables of \$160,206 for the year ended June 30, 2021. The School did not write off any receivables for the year ended June 30, 2020. The School evaluates the collectivity of the receivables and employs the allowance method. The School has determined an allowance of \$91,365 for uncollectible accounts for grants receivable is necessary as of June 30, 2021. No allowance for uncollectible accounts for grants receivable was necessary as of June 30, 2020. Such estimate is based on management's assessments of the aged basis of its receivables, as well as current economic conditions.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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##### **Contributions**

Transfers of cash or other assets or settlement of liabilities that are both voluntary and nonreciprocal are recognized as contributions.

Contributions may either be conditional or unconditional. A contribution is considered conditional when the donor imposes both a measurable barrier and a right of return. Conditional contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity and other stipulations related to the contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the School fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as refundable advances.

Unconditional contributions may or may not be subject to donor-imposed restrictions. Donor-imposed restrictions limit the use of the donated assets as to time or purpose restrictions.

Contributions subject to donor restrictions are recognized in changes in net assets with donor restrictions. When a purpose restriction is satisfied or when a time restriction expires, the contribution is reported as net assets released from restrictions and is recognized in changes in net assets without donor restrictions in the statement of activities.

##### **Revenue Recognition**

###### Per-Pupil Revenue

The School recognizes revenues from per-pupil funding in the fiscal year in which the academic programs are provided. Per-pupil revenue is billed and received based on the total number of full-time equivalent ("FTE") students and the basic charter school tuition rate for the school district of residence of the students attending the School in any given fiscal year for general education and special education. The FTE is formula-driven and based on the number of days the student has been with the School as a proportion of the number of days in the entire school year (the calculation is done by using the New York State calculator online). The School's total student population includes general education and special education students. The School has determined that revenue from its students has the same performance obligations, types of contract, and services rendered. As a result, the student body is viewed as one customer base for revenue purposes. The School uses a portfolio approach to account for per-pupil contracts as a collective group rather than recognizing revenue on an individual-contract basis. The School believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Per-pupil invoicing is managed on a bi-monthly basis to the funding source (local school district). Billing is a function of student enrollment for the upcoming fiscal year, which is the basis for the first two invoices per-pupil due June 1st and July 31st, which is a projection. Subsequent invoices are due bi-monthly. With the implementation of an automated-invoicing process through a dedicated website, the submission of each invoice is done online. After the year is complete, the School submits the FTE per-pupil reconciliation, listing every student who attended any part of the year, and the FTE each represents. Based on this final count, it calculates how much should have been paid to the School and included in the reconciliation will be any amounts due from the funding source included in grants and other receivables on the statement of financial position at year end, or any amounts payable to the funding source included as a liability on the statement of financial position at year end, as amounts are tried up to actual based on actual numbers submitted at year end.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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##### **Revenue Recognition (continued)**

##### Per-Pupil Revenue (continued)

Additional funding is also provided to support special education services. All students who are identified to need special education services or settings have an Individualized Education Program (“IEP”), formalized for his or her unique needs. Based on this IEP, the student is categorized into one of three levels of service: 0-20% service, 20-60% service, or 60% or more service required and provided by the School. For a student receiving less than 20% in services, no additional funding is received. For a student receiving services between 20% and 60% and 60% or more services of the school day, additional funding per FTE is received. Billing for this support is incorporated into the per-pupil invoices and is also settled in the same FTE per-pupil reconciliation process.

As the students receive the benefit of these services simultaneously as the School is providing them, the School recognizes per-pupil revenue from these services over time. The School believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to students receiving academic or school services. The School measures the performance obligation from admission or enrollment into the School to the point when the student is discharged or the end of the school year where it is no longer required to provide services to the student, which is generally at the time of discharge or the completion of the school year. All of these services are bundled and considered a single-performance obligation, and as such, the School accounts for these bundled-performance obligations under state and local per pupil operating revenue in the statement of activities and recognizes the per-pupil revenue over time.

##### Government Grants

Revenue from federal, state, and local government grants and contracts is recognized by the School when qualifying expenditures are incurred and billable to the government, or when required services have been provided.

##### Contract Assets and Contract Liabilities

In accordance with Accounting Standards Codification (“ASC”) 606, contract assets are to be recognized when an entity has the right to receive consideration in exchange for goods or services that have been transferred to a customer when that right is conditional on something other than the passage of time. The School does not recognize contract assets, as the right to receive consideration is unconditional in accordance with the passage of time criteria. Also, in accordance with ASC 606, contract liabilities are to be recognized when an entity is obligated to transfer goods or services for which consideration has already been received. The School does not receive consideration prior to the transfer of goods or services and, therefore, does not recognize contract liabilities.

##### **Contributions of Nonfinancial Assets**

The School may receive contributed services that are an integral part of its operations. Such services are only recorded as contributions of nonfinancial assets, at their fair value, provided the services received create or enhance nonfinancial assets, require specified skills provided by individuals possessing those skills, and typically need to be purchased, if not provided by donation.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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##### 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. Leasehold improvements are amortized over the lesser of the useful life of the asset or the lease term. 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 an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized, based on the established threshold.

##### 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, 2021 and 2020.

##### Advertising

The School expenses advertising costs as incurred. The School incurred \$6,930 and \$6,142 of advertising costs for the years ended June 30, 2021 and 2020, respectively, which is included in the accompanying statements of functional expenses under office expense.

##### Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis and by natural classification in the accompanying statement of activities. Accordingly, certain costs have been allocated among the respective programs and activities according to the functional categories, as follows:

Program Services – This category represents expenses related to general education and special education for certain students requiring additional attention and guidance. These costs are allocated based on the FTE allocation method.

Management and General – This category represents expenses related to the overall administration and operation of the School that are not specific to any program services or development. These costs are allocated based on the FTE allocation method.

Fundraising – This category represents expenses directly associates with the School's effort to raise funds to support the operations for the School. These costs are allocated based on the FTE allocation method.

##### 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 28, 2021, which is the date the financial statements were available to be issued.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

#### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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##### **Income Taxes**

The School is exempt from federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and, therefore, has made no provision for income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the IRC. There was no unrelated business income for the year ended June 30, 2021.

Under U.S. GAAP, an organization must recognize the tax benefit associate with tax positions taken for tax-return purposes when it is more likely than not that the position will not be sustained upon examination by a taxing authority. The School does not believe it has taken any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The School is subject to routine audits by a taxing authority. As of June 30, 2021, the School was not subject to any examination by a taxing authority.

##### **Adopted Accounting Pronouncement**

###### Revenue from Contracts with Customers (Topic 606)

During the year ended June 30, 2021, the School adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), as of July 1, 2020 using the modified-retrospective approach. This guidance requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. The School's revenue is derived primarily from per-pupil revenue for services provided to students. Per-pupil revenues are recognized as revenue over the course of the academic school year or program for which it is earned. The adoption of ASU 2014-09 did not result in a material change to the timing of when revenue is recognized.

##### **Recent Accounting Pronouncements**

###### Lease Accounting

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases*, which will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The standard is effective for non-public business entities for fiscal years beginning after December 15, 2021. The School is currently evaluating the impact of the adoption of ASU 2016-02.

###### Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets (Topic 958). The update requires not-for-profits to present contributed nonfinancial assets as a separate line item on the statement of activities, and to disclose information regarding each type of contributed nonfinancial assets. The update is effective for financial statements issued for fiscal years beginning after June 15, 2021, and interim periods within fiscal years beginning after June 15, 2022, with early application permitted. The School is currently evaluating the impact of the adoption of ASU 2020-07.

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK**

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

**4. PROPERTY AND EQUIPMENT**

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Property and equipment consist of the following at June 30:

	2021	2020	Estimated Useful Lives
Furniture and fixtures	\$ 165,515	\$ 144,111	7 years
Computer hardware and software	193,834	129,044	3 years
			Lesser of the useful life of the asset or the lease term
Leasehold improvements	48,500	-	
	<u>407,849</u>	<u>273,155</u>	
Less: Accumulated depreciation and amortization	<u>(256,475)</u>	<u>(232,181)</u>	
	<u><b>\$ 151,374</b></u>	<u><b>\$ 40,974</b></u>	

Depreciation expense for the years ended June 30, 2021 and 2020 was \$24,294 and \$8,158, respectively.

**5. LOAN PAYABLE – PAYCHECK PROTECTION PROGRAM**

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In April 2020, the School received loan proceeds in the amount of \$638,717 (the “PPP Loan”), under the Paycheck Protection Program (“PPP”). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) which was enacted March 27, 2020. The PPP Loan, which was in the form of a promissory note, dated April 6, 2020, issued by the School with a maturity on April 6, 2022, and bear interest at a rate of 1.0% per annum.

The CARES Act and the PPP provide a mechanism for forgiveness of up to the full amount borrowed. The amount of the loan proceeds eligible for forgiveness is based on a formula that takes into account a number of factors, including the amount of loans proceeds used by the School during the 24-week period after the loan origination for certain eligible purposes including payroll costs, interest on certain mortgage obligations, rent payments on certain leases, and certain qualified utility payments, provided that at least 60% of the loan amount is used for eligible payroll costs; the employer maintaining or rehiring employees and maintaining salaries at certain levels; and other factors. Subject to other requirements and limitations on loan forgiveness, only loan proceeds spent on payroll and other eligible costs during a covered eight-week or twenty-four-week period qualify for forgiveness. Any forgiveness of the PPP loan is subject to approval by the Small Business Administration. At June 30, 2021 and 2020, the PPP Loan is included in total liabilities on the accompanying statements of financial position.

On July 12, 2021, the School received notification from the Small Business Administration that the School's forgiveness application of the PPP Loan and accrued interest was approved in full, and the School has no further obligations related to the PPP Loan. The School will record the forgiveness of debt in fiscal year 2022.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

#### 6. RELATED PARTY TRANSACTIONS

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The School has an operating lease agreement with CCC, a not-for-profit organization and a related party of the School, which commenced on July 1, 2010 and expires on June 30, 2021, and became a month-to-month lease. The School pays a monthly rent in the amount of \$38,245. Rent expense for each of the years ended June 30, 2021 and 2020 was \$458,945, which is included in the accompanying statements of functional expenses under occupancy and facility costs. On October 12, 2021, the lease was renewed through June 30, 2023 and monthly rent will continue to be \$38,245. 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,		
2022	\$	458,945
2023		458,945
Total	\$	<u>917,891</u>

During the years ended June 30, 2021 and 2020, CCC contributed \$150,000 and \$50,000, respectively, to the School.

#### 7. PENSION PLAN

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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 their 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's 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 either of the years ended June 30, 2021 or 2020.

#### 8. RISK MANAGEMENT

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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 also intends to defend its positions on these matters. As of June 30, 2021, there are no matters for which the School believes the ultimate outcome would have a material adverse effect on the School's financial position.

The School enters 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 is of the opinion that such cost disallowances, if any, will not have a material effect in the School's financial statements.

On March 27, 2020, the CARES Act was signed into law in response to the coronavirus ("COVID-19") pandemic. The CARES Act includes many measures to provide relief to companies and organizations. Under the CARES Act, the Local Education Agencies ("LEAs") received funds from the Elementary and Secondary School Emergency Relief ("ESSER") fund to provide equitable services to students and teachers in non-public schools. The School was granted funds to defray the COVID-19 outbreak costs under the aforementioned ESSER fund during the year ended June 30, 2021.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

#### 9. CONCENTRATIONS

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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 91% and 94% of its total revenue from per pupil funding from the NYCDOE during the years ended June 30, 2021 and 2020, respectively.

Two grantors accounted for approximately 100% of grants receivable at June 30, 2021 and 2020.

One vendor accounted for approximately 69% of accounts payable at June 30, 2021. Four vendors accounted for approximately 87% of accounts payable at June 30, 2020.



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**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  
Brooklyn, New York

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, 2021, 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 28, 2021.

**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") 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 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 financial statements. 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 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.

*BDO USA, LLP*

New York, NY  
October 28, 2021

**CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK**

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2021

**1. SUMMARY OF AUDITOR'S RESULTS**

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**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?                           Yes      X   No
- Significant deficiency(ies) identified?                   Yes      X   None reported

Noncompliance material to financial statements noted?           Yes      X   No

**2. FINANCIAL STATEMENT FINDINGS**

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There were no findings related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.