

CULTURAL ARTS ACADEMY CHARTER SCHOOL
AT SPRING CREEK

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

OCTOBER 27, 2020

October 27, 2020

To the Audit Committee
Cultural Arts Academy Charter School

We have audited the financial statements of Cultural Arts Academy Charter School At Spring Creek (the "School") for the years ended June 30, 2020 and 2019 and are prepared to issue our report thereon dated October 27, 2020. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter dated April 27, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Cultural Arts Academy Charter School At Spring Creek. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in August 2020.

C. Auditor Independence:

We affirm that MBAF CPA's, LLC is independent with respect to Cultural Arts Academy Charter School At Spring Creek.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cultural Arts Academy Charter School At Spring Creek are described in Note 2 to the financial statements. As described therein, the School elected to implement the application of an accounting pronouncement pertaining to accounting for uncertain tax positions.

As described in Note 2 to the financial statements, during the year ended June 30, 2020, the School adopted Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The update provides guidance in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional or not. The adoption of this update had no effect on the School's financial position and changes in net assets.

We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Allowance for Doubtful Accounts:

As of June 30, 2020, Cultural Arts Academy Charter School At Spring Creek recorded grants and other receivables of \$242,248. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the consultant and an analysis of the nature of the receivables, and a test of subsequent collections, we concur with management's conclusion.

Depreciation:

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

Functional Statement Allocation:

Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was:

The disclosure of Risk Management in Note 8 to the financial statements which describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Except as those made known to you, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

There were 6 audit adjustments that increased net assets by approximately \$13,000. In the prior year, there were 7 audit adjustments that decreased net assets by approximately \$100,000. The most significant adjustment was as follows:

- To increase net assets by approximately \$52,000 to record NYS Senate Additional State Aid funding.

Proposed and Uncorrected:

There were no audit adjustments not recorded due to immateriality.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 27, 2020.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

K. Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR
ENHANCING OPERATING EFFICIENCY**

Maximize Revenue

There were Title I, Title II, Title III, and Title IV funds made available to the School for the year 2019 and 2020 that were not fully collected. Accordingly, we suggest the School maximize all revenue streams.

Backup Documentation

Our review of the School's cash disbursements revealed that documentation was not easily obtained for disbursements. We recommend that management implements policies to keep copies of all invoices, authorization and backups for all disbursements easily accessible.

Expense Testing

Our testing of expenses revealed that the School paid some sales tax to some of their vendors. Since the School is tax-exempt, we recommend that the School consider providing a sales tax exempt form for all purchases.

Compliance Testing (Cash Disbursements)

Our testing of cash disbursements revealed that disbursements paid for by a debit card do not require approval from the Principal or the Board of Trustees. We recommend that management implements policies to ensure that all purchases made by a debit card are properly authorized by the Principal or Board of Trustees.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Cultural Arts Academy Charter School At Spring Creek and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MBAF CPAs, LLC

MBAF CPA's, LLC

CULTURAL ARTS ACADEMY CHARTER SCHOOL
AT SPRING CREEK

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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, 2020 and 2019, 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.

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, 2020 and 2019, and the changes in its net deficit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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 School has a net deficit of approximately \$316,000. While the school had a decrease in net deficit of approximately \$36,000 for the year ending June 30, 2020, the School had losses of approximately \$260,000 and \$240,000 for the years ended June 30, 2019 and 2018, respectively. 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.

As further discussed in Note 8 to the financial statements, a global pandemic has been declared by the World Health Organization as a result of the rapidly growing outbreak of the coronavirus, COVID-19. The extent and ultimate impact of COVID-19 on the School's operating and financial performance cannot be predicted at this time. 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 27, 2020, 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.

MBAF CPAs, LLC

New York, NY
October 27, 2020

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

ASSETS	2020	2019
Cash	\$ 599,534	\$ 95,382
Cash - restricted	75,245	75,221
Grants receivable	242,248	222,702
Prepaid expenses and other assets	20,000	20,000
Property and equipment, net	40,974	25,126
TOTAL ASSETS	\$ 978,001	\$ 438,431
LIABILITIES AND NET DEFICIT		
LIABILITIES		
Accounts payable and accrued expenses	\$ 109,477	\$ 145,533
Accrued salaries and other payroll related expenses	513,011	586,076
Due to NYC Department of Education	32,313	58,032
Paycheck Protection Program loan payable	638,717	-
	1,293,518	789,641
NET DEFICIT		
Net deficit - without donor restrictions	(315,517)	(351,210)
TOTAL LIABILITIES AND NET DEFICIT	\$ 978,001	\$ 438,431

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, 2020 AND 2019

	2020	2019
OPERATING REVENUE WITHOUT DONOR RESTRICTIONS		
State and local per pupil operating revenue	\$ 4,478,860	\$ 3,910,174
Government grants and contracts	179,563	231,982
	<u>4,658,423</u>	<u>4,142,156</u>
EXPENSES		
Program services:		
General education	3,669,046	3,923,781
Special education	366,558	392,006
Management and general	630,413	690,542
Fundraising	46,610	50,596
	<u>4,712,627</u>	<u>5,056,925</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(54,204)</u>	<u>(914,769)</u>
SUPPORT AND OTHER INCOME		
Contributions	58,500	621,000
Other income	31,397	33,697
	<u>89,897</u>	<u>654,697</u>
CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS	35,693	(260,072)
NET DEFICIT - BEGINNING OF YEAR	<u>(351,210)</u>	<u>(91,138)</u>
NET DEFICIT - END OF YEAR	<u>\$ (315,517)</u>	<u>\$ (351,210)</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, 2020

	No. of Positions	Program Services			Supporting Activities			2020
		General Education	Special Education	Total Program	Management and General	Fundraising	Total	
Personnel services costs:								
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
Office expense		12,176	1,217	13,393	1,783	182	1,965	15,358
		\$ 3,669,046	\$ 366,558	\$ 4,035,604	\$ 630,413	\$ 46,610	\$ 677,023	\$ 4,712,627

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 Activities			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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 4,703,055	\$ 4,933,449
Cash paid to employees and suppliers	<u>(4,813,590)</u>	<u>(4,845,681)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(110,535)</u>	<u>87,768</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(24,006)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	<u>638,717</u>	<u>-</u>
NET INCREASE IN CASH	504,176	87,768
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	<u>170,603</u>	<u>82,835</u>
CASH AND CASH - RESTRICTED - END OF YEAR	<u>\$ 674,779</u>	<u>\$ 170,603</u>
 Reconciliation of change in net deficit to net cash (used in) provided by operating activities:		
Change in net deficit	\$ 35,693	\$ (260,072)
Adjustments to reconcile change in net deficit to net cash (used in) provided by operating activities:		
Depreciation	8,158	10,770
Bad debt expense	-	19,730
Changes in operating assets and liabilities:		
Grants receivable	(19,546)	82,797
Accounts payable and accrued expenses	(36,056)	(16,201)
Accrued salaries and other payroll related expenses	(73,065)	216,675
Due to NYC Department of Education	<u>(25,719)</u>	<u>34,069</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (110,535)</u>	<u>\$ 87,768</u>
 Cash and cash - restricted consist of:		
Cash	\$ 599,534	\$ 95,382
Cash - restricted	<u>75,245</u>	<u>75,221</u>
Total	<u>\$ 674,779</u>	<u>\$ 170,603</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, 2020 AND 2019

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 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. The School's primary sources of income are from government funding.

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.

The New York City Department of Education ("NYCDOE") provides free lunches and 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 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.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash - Restricted

Cash - restricted is an escrow account of \$75,245 and \$75,221 at June 30, 2020 and 2019, 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 \$242,248 and \$222,702 at June 30, 2020 and 2019, respectively. The School wrote off receivables of \$19,730 for the year ended June 30, 2019. The School did not write off any receivables for the year ended June 30, 2020. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2020 and 2019. Such estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

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.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as net assets with donor restrictions if they are received with donor stipulations. 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 change in net deficit without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value.

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, 2020 and 2019.

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. 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.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 and 2019.

Advertising

The School expenses advertising costs as incurred. The School incurred \$6,142 and \$21,486 of advertising costs for the years ended June 30, 2020 and 2019, respectively, which is included in the accompanying statements of functional expenses under office expense.

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.

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 27, 2020, 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 2017.

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.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted Accounting Pronouncement

During the year ended June 30, 2020, the School adopted Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The update provides guidance in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional or not. The adoption of this update had no effect on the School's financial position and changes in net assets.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

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. In June 2020, the FASB issued an accounting standards update which defers the required effective date of the update for one year. As a result, entities may elect to adopt the update for annual reporting periods beginning after December 15, 2019, and for interim reporting periods beginning after December 15, 2020, with early application permitted. The School has elected the deferral and is currently evaluating the effect the update will have on its financial statements.

Lease Accounting

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, lessor accounting, and disclosures related to accounting changes and error corrections.

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.

In June 2020, the FASB issued an accounting standards update which defers the required effective date of the update for one year. As a result, entities may elect to adopt the guidance for annual reporting periods beginning after December 15, 2021, and for interim reporting periods beginning after December 15, 2022, with early application permitted. The School has elected the deferral and is currently evaluating the effect the update will have on its financial statements.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

Contributed Nonfinancial Assets

In September 2020, the FASB issued an accounting standards update which amends guidance for not-for-profit entities that receive contributed nonfinancial assets. The update requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities, and to disclose information regarding each type of contributed nonfinancial assets. The update is to be applied on a retrospective basis and is effective for annual reporting periods beginning after June 15, 2021, and for interim reporting periods beginning after June 15, 2022. The School is currently evaluating the effect the update will have on its financial statements.

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

	2020	2019
Cash	\$ 599,534	\$ 95,382
Cash - restricted	75,245	75,221
Grants receivable	<u>242,248</u>	<u>222,702</u>
Total financial assets	917,027	393,305
Less amount unavailable for general expenditures within one year due to:		
Restricted by contract with time or purpose	<u>(75,245)</u>	<u>(75,221)</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 841,782</u>	<u>\$ 318,084</u>

At June 30, 2020 and 2019, the School has no board-designated net assets.

The School has a net deficit of approximately \$316,000 at June 30, 2020. While the School had a decrease in net deficit of approximately \$36,000 for the year ending June 30, 2020, the School had losses of approximately \$260,000 and \$240,000 for the years ended June 30, 2019 and 2018, respectively, and a deteriorating cash position. 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, 2021. 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, 2021. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>	Estimated Useful Lives
Furniture and fixtures	\$ 144,111	\$ 144,111	7 years
Computer hardware and software	<u>129,044</u>	<u>105,038</u>	5 years
	273,155	249,149	
Less: accumulated depreciation	<u>(232,181)</u>	<u>(224,023)</u>	
	<u>\$ 40,974</u>	<u>\$ 25,126</u>	

Depreciation expense for the years ended June 30, 2020 and 2019 was \$8,158 and \$10,770, respectively.

5. PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

On April 6, 2020, the School received a loan in the amount of \$638,717 through the Paycheck Protection Program of the 2020 CARES Act ("PPP") administered by the Small Business Administration. The loan is due on April 6, 2022, and bears interest at 0.98 percent. Monthly payments of principal and interest commence on October 6, 2020. The School may prepay the loan at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for certain purposes, including payroll, benefits, rent, and utilities. Under the terms of the PPP, all or a portion of the loan may be forgiven based on certain requirements being met. The School is tracking the qualifying expenditures during the qualifying period to apply for loan forgiveness under the program by June 30, 2021.

6. 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. Rent expense for each of the years ended June 30, 2019 and 2018 was \$458,945, 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 amount to \$458,945 for the year ended June 30, 2021.

During the years ended June 30, 2020 and 2019, CCC contributed \$50,000 and \$620,000, respectively, to the School.

7. 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 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, 2020 or 2019.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

8. 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 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.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The impact of the outbreak of the COVID-19 coronavirus continues to rapidly evolve. The School cannot reasonably estimate the duration and severity of this pandemic; however, economic uncertainties have arisen which could have a material adverse impact on the School's activities, its financial position and its cash flows. The School believes they are taking appropriate actions to mitigate the negative impact.

9. 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 94% and 82% of its total revenue from per pupil funding from the NYCDOE during the years ended June 30, 2020 and 2019, respectively.

Two grantors accounted for approximately 100% and 90% of grants receivable at June 30, 2020 and 2019, respectively.

Four vendors accounted for approximately 87% of accounts payable at June 30, 2020. Two vendors accounted for approximately 60% of accounts payable at June 30, 2019.

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, 2020, 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 27, 2020.

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 27, 2020.



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 27, 2020

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

	Fiscal Year 2021 Budget	Fiscal Year 2020 Actual	Difference
Revenues			
Per Pupil - General Education	4,515,000	4,340,292	174,708
- Special Education	221,500	227,115	(5,615)
Grants	235,000	127,576	107,424
Other Income	<i>Inc PPP Loan</i> 663,000	89,898	573,102
Total Revenues	\$ 5,634,500	\$ 4,784,881	\$ 849,619
Expenses			
PERSONNEL SERVICES			
Administration	\$ 725,000	\$ 704,297	\$ 20,703
Instructional	2,075,000	1,938,073	136,927
Security	60,000	51,277	8,723
Maintenance & Food Services	310,000	312,261	(2,261)
Total personnel services	3,170,000 (52 Employees)	3,005,908 (50 Employees)	164,092 (+2 Employees)
Fringe benefits			
Payroll taxes	232,995	217,175	15,820
Health/Dental insurance	452,557	429,131	23,426
Total fringe benefits	685,552	646,306	39,246
OTHER THAN PERSONNEL SERVICES			
Rent	460,000	458,945	1,055
Insurance	60,000	53,656	6,344
Maintenance/Repair	125,000	84,753	40,247
Office Equipment	10,000	4,700	5,300
Office Expenses	75,000	52,754	22,246
Professional Costs	125,000	118,408	6,592
Contract Services & Professional Instruction	150,000	153,832	(3,832)
Pupil Supplies/Furniture	60,000	62,575	(2,575)
Student Activities & Field Trips	25,000	24,749	251
Meetings & Travel	25,000	22,523	2,477
Other Expenses	20,000	15,360	4,640
Depreciation	25,000	8,158	16,842
Total other than personnel service	1,160,000	1,060,413	99,587
Total Expenses	5,015,552	4,712,627	302,925
Revenues in excess of expenses	\$ 618,948	\$ 72,254	\$ 546,694

Revenue Backup:

Per-Pupil	Statutory	Add'l NYS	Add'l NYC	Subtotal	# of Students	Total:
Gen-Ed	16,123	-	-	16,123	280	4,514,440
						<u>4,514,440</u>
Sp-Ed	10,390	-	-	10,390	3	31,170
Sp-Ed	19,049	-	-	19,049	10	190,490
						<u>221,660</u>
Grants	Title I	Title II	Title III	Title IV	Special	
2020-21 Allocation	93,297	2,000	148	10,000	-	
Cares Act					78,234	
State Aid					51,990	
	<u>93,297</u>	<u>2,000</u>	<u>148</u>	<u>10,000</u>	<u>130,224</u>	<u>235,669</u>
Other	Interest	Individual Donations		PPP Loan		
	150	25,000		638,717		663,867



JPMorgan Chase Bank, N.A.
 P O Box 182051
 Columbus, OH 43218-2051

September 01, 2020 through September 30, 2020

Account Number: [REDACTED]

CUSTOMER SERVICE INFORMATION

Web site: www.Chase.com
 Service Center: 1-877-425-8100
 Deaf and Hard of Hearing: 1-800-242-7383
 Para Espanol: 1-888-622-4273
 International Calls: 1-713-262-1679

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LARRY H WEISS AS ESCROW AGENT FOR
 CULTURAL ARTS ACADEMY CHARTER SCHOOL
 LARRY H WEISS ESCROW AGENT
 1900 HEMPSTEAD TPKE STE 200
 EAST MEADOW NY 11554-1702



SAVINGS SUMMARY

Chase Business Select High Yield Savings

	INSTANCES	AMOUNT
Beginning Balance		\$75,245.79
Deposits and Additions	1	0.61
Ending Balance	1	\$75,246.40
Annual Percentage Yield Earned This Period		0.01%
Interest Paid This Period		\$0.61
Interest Paid Year-to-Date		\$10.26

There has been no activity on your account during this statement period. You may not receive a statement through the mail in the future if there is no activity on your account. You can always view your account activity and statement by logging on to your account through chase.com. If you have questions, please call us at the number on this statement.

You could earn an even higher interest rate on your Chase Business Select High Yield Savings account if you link it to a qualifying checking account. Visit any of our branches for details or call us at the telephone number on your statement.

Your monthly service fee was waived because you maintained an average savings balance of \$10,000 or more during the statement period.

TRANSACTION DETAIL

DATE	DESCRIPTION	AMOUNT	BALANCE
	Beginning Balance		\$75,245.79
09/30	Interest Payment	0.61	75,246.40
	Ending Balance		\$75,246.40

30 deposited items are provided with your account each month. There is a \$0.20 fee for each additional deposited item.