

CULTURAL LEADERS ACADEMY CHARTER SCHOOL  
AT SPRING CREEK

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COMMUNICATIONS COMMITTEE

OCTOBER 27, 2011

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 year ended June 30, 2020 and our report thereon dated October 27, 2020. Our professional standards require that we provide the following information related to our audit. This letter is divided into two sections. The first communicates from the auditors to those with audit engagement responsibilities and opportunities for strengthening internal controls or other improvements. The second communicates 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 defined 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 of management's audit responsibility. 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 to the purpose of determining whether it was necessary to provide any assurance concerning such internal control. We are not communicating significant matters related to the audit that are in our professional judgment relevant to those responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**B. Planning the Audit:**

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

**C. Auditor Independence:**

We affirm that MBAF, CPAs, 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 discuss with 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 accounting treatment applicable to the 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.



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:

- x 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 auditor.



CULTURAL ARTS ACADEMY CHARTER SCHOOL  
AT SPRING CREEK

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FIRST ANNUAL STATE FILM FESTIVAL

JUNE 30, 2011



CERTIFIED PUBLIC ACCOUNTANTS AND

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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 at June 30, 2020 and 2019, and the related statements of functional expenses for the years ended June 30, 2020 and 2019, 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 in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the fair presentation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no opinion on the effectiveness of the School's internal control. Our audit also includes evaluating the appropriateness of accounting principles 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.





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

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		-

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STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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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><u>                    </u></u>	<u><u>                    </u></u>

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



		General Education	Special Education	Total Program	Management and General	Fundraising	Total	2019
Instructional personnel	50	\$ 1,822,347	\$ 182,063	\$ 2,004,410	\$ 266,841	\$ 27,177	\$ 294,018	\$ 2,298,428

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 4,703,055	\$ 4,933,449
Cash paid to employees and suppliers	(4,813,590)	(4,845,681)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(110,535)	87,768
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(24,006)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	638,717	-
NET INCREASE IN CASH	504,176	87,768
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	170,603	82,835
CASH AND CASH - RESTRICTED - END OF YEAR		
Reconciliation of change in net deficit to net cash (used in) provided by operating activities:		
Change in net deficit	\$ 35,693	34% öy%



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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

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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 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 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 recorded when received.



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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

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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.

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.

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.

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.

The School has evaluated events through October 27, 2020, which is the date the financial statements were available to be issued.

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.



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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019



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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

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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 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.

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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 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 the Internal Control over Financial Reporting and on the Consolidated Financial Statements Based on an Audit of Financial Statements**

To the Board of Trustees  
Cultural Arts Academy Charter School, 101 Spring Creek

We have audited, in accordance with the auditing standards generally accepted in the United States, the consolidated financial statements and the internal control over financial reporting that pertain to the Cultural Arts Academy Charter School, 101 Spring Creek, which comprise the consolidated balance sheet 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 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 not designed to identify all deficiencies in internal control that might constitute deficiencies. Given these limitations, our audit 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, grant agreements, noncompliance with which could have a direct 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 instances of non-compliance, or other matters, that we reported to the School in a separate letter dated October 27, 2020.

We noted certain other matters that we reported to the School in a separate letter dated October 27, 2020.



CULTURAL ARTS ACADEMY

Fiscal Year

	2019	2020	2021	2022
<b>REVENUES</b>				
Per Pupil - General Education				
- Special Education				
Grants		2,315,000		
Other Income				975,102
<b>Total Revenues</b>		\$ 5,600,500	\$ 4,784,881	\$ 849,619
<b>Expenses</b>				
<b>PERSONNEL SERVICES</b>				
Administration		720,000		20,100
Instructional		2,070,000	1,930,070	130,927
Security		33,000		
Maintenance & Equipment		240,000		
<b>Total Personnel Services</b>		3,063,000	1,930,070	151,027
		(52 Employees)		
Fringe benefits				
Payroll taxes		2,200,000	2,117,000	
Health Insurance		450,000	400,000	20,000
<b>Total fringe benefits</b>		2,650,000	2,517,000	20,000
<b>OTHER THAN PERSONNEL SERVICES</b>				
Rent		460,000	458,000	1,000
Insurance		60,000	53,150	6,850
Maintenance/Repair		120,000	84,700	35,300
Office Equipment		10,000		
Professional Services		125,000	110,000	15,000
Contract Services		100,000		
Pupil Supplies/Furniture		10,000	62,575	12,575
Student Activities & Field Trips		25,000	24,740	250
Meetings				
Office Expenses		20,000	10,000	
Depreciation		25,000	150,000	125,000
<b>Total other than personnel services</b>		1,100,000	1,100,000	200,500
<b>Total Expenses</b>		5,013,000	4,997,070	371,527
<b>Revenues in excess of</b>				



Revenue Backup:

<b>Per-Pupil</b>	<b>Statutory</b>	<b>Add'l NYS</b>	<b>Add'l NYC</b>	<b>Subtotal</b>	<b># of Students</b>	<b>Total:</b>
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>
<b>Grants</b>	<b>Title I</b>	<b>Title II</b>	<b>Title III</b>	<b>Title IV</b>	<b>Special</b>	
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>
<b>Other</b>	<b>Interest</b>	<b>Individual Donations</b>		<b>PPP Loan</b>		
	150	25,000		638,717		663,867

