



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, 2017, 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 26, 2017.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as finding 2017-01.

We noted certain other matters that we reported to management of the School in a separate letter dated October 26, 2017.

Cultural Arts Academy Charter School at Spring Creek's Response to Finding

The School's response to finding 2017-01 identified in our audit is described in the accompanying corrective action plan. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 26, 2017

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

yes _____

no √

Significant deficiency (ies) identified that are not
considered to be material weaknesses?

yes _____

no √

Noncompliance material to financial statements noted?

yes √

no _____

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

Section II - Financial Statement Findings

Finding: 2017-01

Criteria: The New York State Education Department ("NYSED") requires the School to maintain proof of fingerprinting clearance for all employees who are in contact with the children.

Condition and Context: In our 2016 audit, we determined that the School did not meet the requirement of fingerprinting clearance for 1 of the 25 employees files tested. This condition was identified during fiscal 2017.

Cause: The School had inadequate management oversight of NYSED requirements.

Effect: The School could be in a position where they could lose funding from NYSED for not being in compliance with the Charter School Audit Guide, which requires all employee files to maintain proof of fingerprinting clearance.

Recommendations: We recommend that the School be in compliance with the NYSED fingerprinting requirements.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES JUNE 30, 2016

Section II - Financial Statement Findings

Finding: 2016-01

Criteria: The New York State Education Department ("NYSED") requires the School to maintain proof of fingerprinting clearance for all employees who are in contact with the children.

Condition and Context: The School did not meet the requirement of finger printing clearance for 1 of the 25 employees files tested.

Cause: The School had inadequate management oversight of NYSED requirements.

Effect: The School could be in a position where they could lose funding from NYSED for not being in compliance with the Charter School Audit Guide, which requires that all employee files maintain proof of fingerprinting clearance.

Recommendations: We recommend that the School be in compliance with the NYSED fingerprinting requirements.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

**CORRECTIVE ACTION PLAN
JUNE 30, 2017**

Views of responsible officials and corrective action:

Finding: 2017-01

We agree with the finding; In addition to the procedure changes we implemented as a result of this matter being reported in the 2016 audit, we terminated the employee who did not have the appropriate finger print clearance on October 26, 2016.



MBAF CPAs, LLC
440 Park Avenue South, 3rd Floor
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of Cultural Arts Academy Charter School (the "School"), which comprise the statements of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief as of the date of this letter as signed below, the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 25, 2017, including our responsibility for the preparation and fair presentation of the financial statements.
- The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- With regard to nonaudit services performed by you, we acknowledge our responsibility to:
 - Assume all management responsibilities;
 - Oversee the services by designating an individual who possesses suitable skill, knowledge, or experience;
 - Evaluate the adequacy and results of the services performed; and
 - Accept responsibility for the results of the services.
- Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The School has no plans or intentions that may materially affect the carrying value or classifications of assets, liabilities, or net asset balances.
- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

Financial Statements (Continued)

- Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
- Guarantees, whether written or oral, under which the School is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
- We have included in the financial statements all assets and liabilities under the School's control.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the School and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud or suspected fraud affecting the School's financial statements communicated by employees, former employees, grantors, regulators, or others.
- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- Contributed services are only recorded as contributions in kind, at their fair value, provided they meet the criteria for recognition. Donated services received are estimated at \$- for the year ended June 30, 2017.
- We have disclosed to you all known actual or possible litigation, claims, and assessment whose effects should be considered when preparing the financial statements.
- During the year ended June 30, 2017, the NYCDOE owed the School Title I, Title II, and Special Charter School Aide - Senate grant funds totaling \$213,089.
- We have approved the allocation of functional expense between program service performances, management and general and fundraising expenses. This allocation has been properly disclosed in the financial statements.
- We are aware and are in compliance with the Federal Funding Accountability and Transparency Act reporting requirements and reporting timeline for awards that fall within the tiered reporting requirements.
- We have disclosed to you the identity of the School's related parties and all the related party relationships and transactions of which we are aware.
- The School has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and

provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

Information Provided (Continued)

- Cultural Arts Academy Charter School is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the School's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- The New York State Education Department requires the School to maintain proof of fingerprinting clearance for all employees who are in contact with the children. We did not meet the requirement of finger printing clearance for 1 employee. On October 26, 2016, we have terminated this employee without the fingerprint clearance.
- We have identified for you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- We acknowledge our responsibility for presenting the financial statements in accordance with U.S. GAAP, and we believe the financial statements, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the financial statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- We have approved all standard, adjusting or correcting journal entries to our financial statements proposed to you.
- We have approved a draft of the financial statements.
- We acknowledge the communication to the board of trustees which includes your recommendations.
- We are aware that Marc Taub is the engagement partner and is responsible for supervising the engagement and signing the report.

Very truly yours,
Cultural Arts Academy Charter School

Henry Clouden

Henry J. Clouden, III
Treasurer

Laurie B. Midgette
Dr. Laurie B. Midgette
Principal

10/26/17

Date

10/26/17

Date

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

FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

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 statement of financial position as of June 30, 2017, 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Cultural Arts Academy Charter School At Spring Creek's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of Cultural Arts Academy Charter School At Spring Creek's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cultural Arts Academy Charter School At Spring Creek's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 26, 2017

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

ASSETS	2017	2016
Cash	\$ 171,039	\$ 78,464
Cash - restricted	75,161	75,131
Grants receivable	213,089	53,502
Property and equipment, net	23,540	50,737
Prepaid expenses and other assets	44,780	20,000
	<u>\$ 527,609</u>	<u>\$ 277,834</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Accounts payable and accrued expenses	\$ 98,266	\$ 100,523
Accrued salaries and other payroll related expenses	223,210	316,697
Deferred rent	13,238	13,108
Due to NYC Department of Education	43,870	-
	<u>378,584</u>	<u>430,328</u>
NET ASSETS (DEFICIT)		
Unrestricted	<u>149,025</u>	<u>(152,494)</u>
	<u>\$ 527,609</u>	<u>\$ 277,834</u>

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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 3,948,435	\$ 4,043,567
Government grants and contracts	267,519	205,009
	<u>4,215,954</u>	<u>4,248,576</u>
EXPENSES		
Program	3,679,753	4,075,219
Management and general	784,020	528,483
Fundraising	23,699	27,824
	<u>4,487,472</u>	<u>4,631,526</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(271,518)</u>	<u>(382,950)</u>
SUPPORT AND OTHER INCOME		
Contributions and other income	485,000	2,636
In-kind contributions	-	105,232
Interest income	82	246
Miscellaneous income	87,955	106,856
	<u>573,037</u>	<u>214,970</u>
CHANGE IN NET ASSETS (DEFICIT)	301,519	(167,980)
NET (DEFICIT) ASSETS - BEGINNING OF YEAR	<u>(152,494)</u>	<u>15,486</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 149,025</u>	<u>\$ (152,494)</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, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

		Program Services			Supporting Services			2017	2016
		General Education	Special Education	Total Program	Management and General	Fundraising	Total		
Personnel services costs:	No. of Positions								
Instructional personnel	44	\$ 1,097,934	\$ 131,967	\$ 1,229,901	\$ 251,557	\$ 9,692	\$ 261,249	\$ 1,491,150	\$ 1,490,549
Non-instructional personnel	27	886,599	106,565	993,164	203,136	7,827	210,963	1,204,127	1,284,132
Total salaries and wages	71	1,984,533	238,532	2,223,065	454,693	17,519	472,212	2,695,277	2,774,681
Payroll taxes and employee benefits		473,572	56,921	530,493	108,504	4,181	112,685	643,178	626,241
Professional development		27,695	3,329	31,024	6,345	244	6,589	37,613	66,424
Legal fees		-	-	-	3,508	-	3,508	3,508	450
Audit and accounting fees		-	-	-	115,457	-	115,457	115,457	81,965
Professional fees		64,376	7,738	72,114	-	-	-	72,114	72,082
Curriculum and classroom expenses		69,867	8,398	78,265	-	-	-	78,265	59,865
Supplies and materials		37,100	4,459	41,559	8,500	328	8,828	50,387	28,651
Food services		17,472	2,100	19,572	4,003	154	4,157	23,729	122,785
Student services		102,671	12,341	115,012	8,715	336	9,051	124,063	110,136
Postage, printing, and copying		708	85	793	162	6	168	961	2,591
Insurance		44,443	5,342	49,785	10,183	392	10,575	60,360	49,373
Information technology		651	78	729	149	6	155	884	3,527
Non-capitalized equipment and furnishings		6,141	738	6,879	1,407	54	1,461	8,340	7,131
Occupancy and facility costs		401,452	48,253	449,705	49,967	-	49,967	499,672	524,962
Telephone		22,049	2,650	24,699	5,052	195	5,247	29,946	34,017
Depreciation		20,025	2,407	22,432	4,588	177	4,765	27,197	34,004
Bad debt expense		-	-	-	-	-	-	-	17,567
Office expense		12,165	1,462	13,627	2,787	107	2,894	16,521	15,074
		\$ 3,284,920	\$ 394,833	\$ 3,679,753	\$ 784,020	\$ 23,699	\$ 807,719	\$ 4,487,472	\$ 4,631,526

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 4,673,274	\$ 4,322,379
Cash paid to employees and suppliers	(4,580,699)	(4,422,103)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	92,575	(99,724)
NET INCREASE (DECREASE) IN CASH	92,575	(99,724)
CASH - BEGINNING OF YEAR	78,464	178,188
CASH - END OF YEAR	<u>\$ 171,039</u>	<u>\$ 78,464</u>
Reconciliation of change in net assets (deficit) to net cash provided by (used in) operating activities:		
Change in net assets (deficit)	\$ 301,519	\$ (167,980)
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities:		
Depreciation	27,197	34,004
Changes in operating assets and liabilities:		
Cash - restricted	(30)	(30)
Grants receivable	(159,587)	(35,935)
Prepaid expenses and other assets	(24,780)	11,985
Accounts payable and accrued expenses	(2,257)	28,321
Accrued salaries and other payroll related expenses	(93,487)	16,803
Deferred rent	130	13,108
Due to NYC Department of Education	43,870	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 92,575</u>	<u>\$ (99,724)</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, 2017

1. NATURE OF THE ORGANIZATION

Cultural Arts Academy Charter School At Spring Creek (the "School") is a public charter school, as defined by Article 56 of The New York State Education Law, which provides education based on an academically rigorous arts education program that promotes superior scholarship and strong cultural arts proficiency. On February 9, 2010, the Board of Regents of the University of the State of New York (the "State") granted the School a provisional charter valid for a term of five years and renewable upon expiration. On April 4, 2017, the charter was extended until June 30, 2020. The School operates under this charter and the State is responsible for oversight of the School's operations.

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

In fiscal years 2017 and 2016, the School operated classes for students in kindergarten through fifth grade.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

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

The classification of the School's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash - restricted is an escrow account of \$75,161 at June 30, 2017, which is held aside for contingency purposes as required by the Education Department of the State University 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 \$213,089 and \$53,502 at June 30, 2017 and 2016, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2017 and 2016. 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 the 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 would be reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Donated Goods and Services

The School receives contributed goods and services that are an integral part of its operations. Such goods and services are only recorded as contributions in-kind at their fair value, provided they meet the criteria for recognition. Donated goods are recognized if the goods provide a benefit to the School and would have otherwise been purchased. Donated goods consist of student meals and are estimated at \$105,232 for the year ended June 30, 2016, and are reflected as both income and expense in the accompanying financial statements. There were no donated goods and services for the year ended June 30, 2017.

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. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the years ended June 30, 2017 and 2016.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Rent

In accordance with U.S. GAAP, rent expense is recognized on a straight-line basis over the life of the lease, including future escalations of rent, rather than in accordance with lease payments. Deferred rent represents the adjustment to future rents as a result of using the straight-line method.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications 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 26, 2017, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2017 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain notes to the financial statements for June 30, 2016 are presented. As a result, the June 30, 2016 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2016 information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2016, from which the summarized information was derived.

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, state, or local income tax examinations for fiscal years before 2014.

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, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

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

In 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. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School 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, 2017****3. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	2017	2016	Estimated Useful Lives
Furniture and fixtures	\$ 135,491	\$ 135,491	7 years
Computer hardware and software	<u>82,184</u>	<u>82,184</u>	5 years
	217,675	217,675	
Less: accumulated depreciation	<u>(194,135)</u>	<u>(166,938)</u>	
	<u>\$ 23,540</u>	<u>\$ 50,737</u>	

Depreciation expense for the years ended June 30, 2017 and 2016 was \$27,197 and \$34,004, respectively.

4. RELATED PARTY TRANSACTIONS

The School had a five year operating lease agreement with Christian Cultural Center ("CCC"), a not-for-profit organization, which commenced on July 1, 2010 and expires on June 30, 2018. The School pays rent in the amount of \$36,050 a month from July 1, 2015 through June 30, 2016, \$37,152 a month from July 1, 2016 through June 30, 2017, and \$38,245 a month from July 1, 2017 through June 30, 2018. The chief executive officer of CCC is a founding member and board member of the School.

During the year ended June 30, 2016, CCC provided food services to the School in the amount of \$105,232. CCC did not provide any food services in June 30, 2017. In addition, the CCC contributed \$485,000 in cash during the year ended June 30, 2017. CCC did not contribute any cash for the year ended June 30, 2016.

5. PENSION PLAN

Effective September 1, 2011, the School adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan on the first day of employment or the first day of the first, fourth, seventh, or tenth month of the Plan year, if they are at least 21 years in age. The Plan provides for the School to make discretionary contributions. The School contribution does not become vested until the participant's sixth year when it becomes fully vested. For the years ended June 30, 2017 and 2016, the School did not contribute to the Plan.

6. RISK MANAGEMENT

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

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School. The accompanying financial statements make no provision for the possible disallowance or refund.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

7. CONCENTRATIONS

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

The School received approximately 82% and 92% of its total revenue from per pupil funding from the New York City Department of Education during the years ended June 30, 2017 and 2016, respectively.

Two grantors accounted for approximately 100% and 99% of grants receivable at June 30, 2017 and 2016, respectively.

Two vendors accounted for approximately 64% of accounts payable at June 30, 2017. Three vendors accounted for approximately 74% of accounts payable at June 30, 2016.