

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

FINANCIAL STATEMENTS

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2017)

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, 2018, 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.

An Independent Member of Baker Tilly International

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cultural Arts Academy Charter School At Spring Creek as of June 30, 2018, 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 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 30, 2018, 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 30, 2018

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2017)

ASSETS	2018	2017
Cash	\$ 7,644	\$ 171,039
Cash - restricted	75,191	75,161
Grants receivable	325,229	213,089
Property and equipment, net	35,896	23,540
Prepaid expenses and other assets	20,000	44,780
	<u>\$ 463,960</u>	<u>\$ 527,609</u>
LIABILITIES AND NET (DEFICIT) ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 161,734	\$ 98,266
Accrued salaries and other payroll related expenses	369,401	223,210
Deferred rent	-	13,238
Due to NYC Department of Education	23,963	43,870
	<u>555,098</u>	<u>378,584</u>
NET (DEFICIT) ASSETS		
Unrestricted	<u>(91,138)</u>	<u>149,025</u>
	<u>\$ 463,960</u>	<u>\$ 527,609</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, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 4,262,328	\$ 3,948,435
Government grants and contracts	389,556	267,519
	<u>4,651,884</u>	<u>4,215,954</u>
EXPENSES		
Program	4,414,553	3,679,753
Management and general	828,514	784,020
Fundraising	24,853	23,699
	<u>5,267,920</u>	<u>4,487,472</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(616,036)</u>	<u>(271,518)</u>
SUPPORT AND OTHER INCOME		
Contributions and other income	291,000	485,000
Interest income	199	82
Miscellaneous income	84,674	87,955
	<u>375,873</u>	<u>573,037</u>
CHANGE IN NET (DEFICIT) ASSETS	(240,163)	301,519
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>149,025</u>	<u>(152,494)</u>
NET (DEFICIT) ASSETS - END OF YEAR	<u>\$ (91,138)</u>	<u>\$ 149,025</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, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	No. of Positions	Program Services			Supporting Services			2018	2017
		General Education	Special Education	Total Program	Management and General	Fundraising	Total		
Personnel services costs:									
Instructional personnel	49	\$ 1,606,500	\$ 98,826	\$ 1,705,326	\$ 289,435	\$ 11,352	\$ 300,787	\$ 2,006,113	\$ 1,491,150
Non-instructional personnel	29	995,634	61,248	1,056,882	179,378	7,035	186,413	1,243,295	1,204,127
Total salaries and wages	78	2,602,134	160,074	2,762,208	468,813	18,387	487,200	3,249,408	2,695,277
Payroll taxes and employee benefits		628,344	38,653	666,997	113,208	4,440	117,648	784,645	643,178
Professional development		55,254	3,399	58,653	9,955	390	10,345	68,998	37,613
Legal fees		-	-	-	845	-	845	845	3,508
Audit and accounting fees		-	-	-	122,892	-	122,892	122,892	115,457
Professional fees		51,774	3,185	54,959	-	-	-	54,959	72,114
Curriculum and classroom expenses		74,049	4,555	78,604	-	-	-	78,604	78,265
Supplies and materials		40,457	2,489	42,946	7,289	286	7,575	50,521	50,387
Food services		-	-	-	-	-	-	-	23,729
Student services		128,324	7,894	136,218	9,579	376	9,955	146,173	124,063
Postage, printing, and copying		950	58	1,008	171	7	178	1,186	961
Insurance		55,875	3,437	59,312	10,067	395	10,462	69,774	60,360
Information technology		902	55	957	163	6	169	1,126	884
Non-capitalized equipment and furnishings		19,683	1,211	20,894	3,546	139	3,685	24,579	8,340
Occupancy and facility costs		440,543	27,101	467,644	51,960	-	51,960	519,604	499,672
Telephone		30,424	1,872	32,296	5,481	215	5,696	37,992	29,946
Depreciation		15,310	942	16,252	2,758	108	2,866	19,118	27,197
Bad debt expense		-	-	-	19,138	-	19,138	19,138	-
Office expense		14,701	904	15,605	2,649	104	2,753	18,358	16,521
		\$ 4,158,724	\$ 255,829	\$ 4,414,553	\$ 828,514	\$ 24,853	\$ 853,367	\$ 5,267,920	\$ 4,487,472

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 4,895,710	\$ 4,673,274
Cash paid to employees and suppliers	<u>(5,027,601)</u>	<u>(4,580,669)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(131,891)</u>	<u>92,605</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(31,474)</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(31,474)</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH	(163,365)	92,605
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	<u>246,200</u>	<u>153,595</u>
CASH AND CASH - RESTRICTED - END OF YEAR	<u>\$ 82,835</u>	<u>\$ 246,200</u>
Reconciliation of change in net (deficit) assets to net cash (used in) provided by operating activities:		
Change in net (deficit) assets	\$ (240,163)	\$ 301,519
Adjustments to reconcile change in net (deficit) assets to net cash (used in) provided by operating activities:		
Depreciation	19,118	27,197
Bad debt expense	19,138	-
Changes in operating assets and liabilities:		
Grants receivable	(131,278)	(159,587)
Prepaid expenses and other assets	24,780	(24,780)
Accounts payable and accrued expenses	63,468	(2,257)
Accrued salaries and other payroll related expenses	146,191	(93,487)
Deferred rent	(13,238)	130
Due to NYC Department of Education	<u>(19,907)</u>	<u>43,870</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>\$ (131,891)</u>	<u>\$ 92,605</u>
Cash and cash - restricted consist of:		
Cash	\$ 7,644	\$ 171,039
Cash - restricted	<u>75,191</u>	<u>75,161</u>
Total	<u>\$ 82,835</u>	<u>\$ 246,200</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, 2018

1. NATURE OF THE ORGANIZATION

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

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

In fiscal year 2018, the School operated classes for students in kindergarten through sixth grade. In fiscal year 2017, 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, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash - Restricted

Cash - restricted is an escrow account of \$75,191 at June 30, 2018, 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 \$325,229 and \$213,089 at June 30, 2018 and 2017, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2017. 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. For the year ended June 30, 2018, the School wrote off a receivable of \$19,138.

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. There were no donated goods and services for the years ended June 30, 2018 and 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, 2018 and 2017.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 30, 2018, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2018 financial statements include certain prior year summarized comparative information. In addition, only certain notes to the financial statements for June 30, 2017 are presented. As a result, the June 30, 2017 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2017 information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2017, 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 2015.

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, 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Accounting Pronouncement

In fiscal year 2018, the School adopted the accounting standards update which amends the 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-year and end-of-year total amounts shown on the statement of cash flows. The School adopted the update retrospectively for fiscal year 2017. The adoption of this update had no effect on the School's change in net assets or cash flows.

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

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

3. LIQUIDITY

At June 30, 2018, the School had a working capital deficit of approximately \$127,000 driven primarily by rent and facility costs owed to Christian Cultural Center (“CCC”), which is further explained in Note 5. The School had a loss of approximately \$240,000 for the year ending June 30, 2018, and a deteriorating cash position. CCC, a related party that shares board members with the School, is committed to provide financial support through November 1, 2019.

Management believes that the School will be able to continue operations through November 1, 2019.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>	Estimated Useful Lives
Furniture and fixtures	\$ 144,111	\$ 135,491	7 years
Computer hardware and software	<u>105,038</u>	<u>82,184</u>	5 years
	249,149	217,675	
Less: accumulated depreciation	<u>(213,253)</u>	<u>(194,135)</u>	
	<u>\$ 35,896</u>	<u>\$ 23,540</u>	

Depreciation expense for the years ended June 30, 2018 and 2017 was \$19,118 and \$27,197, respectively.

5. RELATED PARTY TRANSACTIONS

The School has an operating lease agreement with CCC, a not-for-profit organization, which commenced on July 1, 2010 and expires on June 30, 2021. The School pays a monthly rent in the amount of \$38,245 from July 1, 2018 through June 30, 2021. The chief executive officer of CCC is a founding member and board member of the School.

During the year ended June 30, 2018 and 2017, the CCC contributed \$280,000 and \$485,000, respectively.

6. PENSION PLAN

Effective September 1, 2011, the School adopted a 403(b) profit sharing plan (the “Plan”) which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan on the first day of employment or the first day of the first, fourth, seventh, or tenth month of the Plan year, if they are at least 21 years in age. The Plan provides for the School to make discretionary contributions. The School contribution does not become vested until the participant’s sixth year when it becomes fully vested. For the year ended June 30, 2018, the School contributed \$21,084. The School did not contribute to the Plan for the year ended June 30, 2017.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

7. RISK MANAGEMENT

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

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

8. CONCENTRATIONS

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

The School received approximately 85% and 82% of its total revenue from per pupil funding from the New York City Department of Education during the years ended June 30, 2018 and 2017, respectively.

Two grantors accounted for 93% and 100% of grants receivable at June 30, 2018 and 2017, respectively.

Two vendors accounted for approximately 72% of accounts payable at June 30, 2018. Two vendors accounted for approximately 64% of accounts payable at June 30, 2017.



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, 2018, 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 30, 2018.

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 questioned costs as finding 2018-01.

We noted certain other matters that we reported to management of the School in a separate letter dated October 30, 2018.

An Independent Member of Baker Tilly International

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

The School's response to finding 2018-01 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 30, 2018

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unmodified

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 QUESTIONED COSTS
JUNE 30, 2018

SECTION II – COMPLIANCE FINDING

Finding: 2018-01

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

Context: NYSED requires the School to have no more than 15 uncertified teachers, with the provision that five of these teachers be teaching math, science, computer science, technology, or career and technical education, with the remaining ten teachers not restricted.

Cause: Inadequate management oversight of NYSED requirements.

Effect: The School can be under additional scrutiny from the New York City Department of Education for not being in compliance with the NYSED requiring teachers to be qualified through certification.

Recommendation: We recommend the School be in compliance with the NYSED teacher qualification requirements.

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
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

**CORRECTIVE ACTION PLAN
JUNE 30, 2018**

Views of responsible officials and corrective action:

Finding: 2018-01

Cultural Arts Academy Charter School at Spring Creek (the "School") is partnered with the NYC Department of Education NYC Men Teach initiative. CAACS has hired four teachers that are part of this special program that was approved for alternative certification. This initiative allows these teachers to be hired while they are working towards their teacher certification. They are permitted to enter the classroom to teach but do not have (1) a major in Education as an undergrad, (2) any (or little) teaching experience, and (3) no prior certification. The NYCDOE, as well as CAACS, provides rigorous instruction for them.

When the 2017-2018 audit season began, annual staff notifications and updates regarding teacher-licensing protocols were already in process as evidenced by our documentation. Additionally, effective March 14, 2017, the Board of Regents voted to extend the time validity of an expired Initial, Transitional or Provisional Pupil Personnel Services certificate for three years from the certificate's expiration date.

CAACS has made changes that we feel will prevent certain reoccurrences in the future; and, these changes are being implemented in the interim. In order to protect our school from risk and tighten our controls, our action plan moving forward includes the addition of a Talent Development Specialist as part of our Business, Accountability and Compliance team. The responsibilities will include helping all pedagogical staff remain current in the licensure and renewal process.