

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

FINANCIAL STATEMENTS

JUNE 30, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2014)

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, 2015, 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.

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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, 2015, 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 2014 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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 27, 2015, 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 27, 2015

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2014)

ASSETS	2015	2014
Cash	\$ 178,188	\$ 22,641
Cash - restricted	75,101	75,071
Grants receivable	17,567	40,402
Property and equipment, net	84,741	120,534
Prepaid expenses and other assets	31,985	40,473
	<u>\$ 387,582</u>	<u>\$ 299,121</u>
LIABILITIES AND NET DEFICIT		
LIABILITIES		
Accounts payable and accrued expenses	\$ 72,202	\$ 112,267
Accrued salaries and other payroll related expenses	299,894	264,375
Deferred rent	-	81,666
	<u>372,096</u>	<u>458,308</u>
NET ASSETS (DEFICIT)		
Unrestricted	<u>15,486</u>	<u>(159,187)</u>
	<u>\$ 387,582</u>	<u>\$ 299,121</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, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	2015	2014
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 4,254,986	\$ 3,631,247
Government grants and contracts	109,624	20,873
	<u>4,364,610</u>	<u>3,652,120</u>
EXPENSES		
Program	4,288,746	3,983,754
Management and general	385,319	454,886
Fundraising	16,024	15,923
	<u>4,690,089</u>	<u>4,454,563</u>
DEFICIENCY FROM SCHOOL OPERATIONS	<u>(325,479)</u>	<u>(802,443)</u>
SUPPORT AND OTHER INCOME		
Contributions, grants and other income	131,030	458,802
In-kind contributions	287,711	268,351
Interest income	178	108
Miscellaneous income	81,233	50,621
	<u>500,152</u>	<u>777,882</u>
CHANGE IN NET ASSETS (DEFICIT)	174,673	(24,561)
NET DEFICIT - BEGINNING OF YEAR	<u>(159,187)</u>	<u>(134,626)</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 15,486</u>	<u>\$ (159,187)</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, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	No. of Positions	Program Services			Supporting Services			2015	2014
		General Education	Special Education	Total Program	Management and General	Fundraising	Total		
Personnel services costs:									
Instructional personnel	39	\$ 1,261,416	\$ 524,529	\$ 1,785,945	\$ 43,161	\$ -	\$ 43,161	\$ 1,829,106	1,599,542
Non-instructional personnel	25	401,329	263,862	665,191	212,049	15,000	227,049	892,240	880,917
Total salaries and wages		1,662,745	788,391	2,451,136	255,210	15,000	270,210	2,721,346	2,480,459
Payroll taxes and employee benefits		368,027	173,796	541,823	55,801	1,024	56,825	598,648	529,255
Professional development		9,923	4,705	14,628	1,523	-	1,523	16,151	51,930
Legal fees		3,154	1,495	4,649	484	-	484	5,133	3,975
Audit and accounting fees		56,787	26,926	83,713	8,716	-	8,716	92,429	95,982
Professional fees - other		35,198	16,889	51,887	5,402	-	5,402	57,289	55,530
Curriculum/classroom expenses		164,939	78,206	243,145	-	-	-	243,145	182,701
Supplies/materials		30,584	14,501	45,085	4,694	-	4,694	49,779	48,700
Food services		195,171	92,540	287,711	-	-	-	287,711	268,351
Student services		48,621	23,054	71,675	-	-	-	71,675	120,172
Postage, printing, and copying		1,015	482	1,497	156	-	156	1,653	1,821
Insurance		39,186	18,580	57,766	6,015	-	6,015	63,781	47,723
Information technology		1,646	780	2,426	253	-	253	2,679	2,653
Leased equipment		2,089	990	3,079	320	-	320	3,399	-
Non-capitalized equipment/furnishings		16,630	7,885	24,515	2,552	-	2,552	27,067	41,926
Occupancy and facility costs		220,562	104,579	325,141	35,982	-	35,982	361,123	455,241
Telephone		14,105	6,687	20,792	2,164	-	2,164	22,956	3,597
Depreciation		21,991	10,427	32,418	3,375	-	3,375	35,793	35,795
Office expense		17,406	8,254	25,660	2,672	-	2,672	28,332	28,752
		\$ 2,909,779	\$ 1,378,967	\$ 4,288,746	\$ 385,319	\$ 16,024	\$ 401,343	\$ 4,690,089	\$ 4,454,563

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2015

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and support	\$ 4,599,886	\$ 4,171,187
Cash paid to employees and suppliers	<u>(4,444,339)</u>	<u>(4,174,778)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>155,547</u>	<u>(3,591)</u>
NET INCREASE (DECREASE) IN CASH	155,547	(3,591)
CASH - BEGINNING OF YEAR	<u>22,641</u>	<u>26,232</u>
CASH - END OF YEAR	<u>\$ 178,188</u>	<u>\$ 22,641</u>
Reconciliation of change in net assets (deficit) to net cash provided by (used in) operating activities:		
Change in net assets (deficit)	\$ 174,673	\$ (24,561)
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities:		
Depreciation	35,793	35,795
Changes in operating assets and liabilities:		
Cash - restricted	(30)	(32)
Grants receivable	22,835	9,536
Prepaid expenses and other assets	8,488	(2,921)
Accounts payable and accrued expenses	(40,065)	44,689
Accrued salaries and other payroll related expenses	35,519	50,875
Deferred rent	(81,666)	(81,667)
Due to NYC Department of Education	<u>-</u>	<u>(35,305)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 155,547</u>	<u>\$ (3,591)</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, 2015

1. NATURE OF THE ORGANIZATION

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

The School operated classes for students in kindergarten through fifth grade in fiscal year 2015, and kindergarten through fourth grade in fiscal year 2014.

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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash-restricted is an escrow account of \$75,101, 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 grants. Grants receivable are expected to be collected within one year, are recorded at net realizable value, and amount to \$17,567 and \$40,402 at June 30, 2015 and 2014, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2015 and 2014. 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 \$287,711 and \$268,351 for the years ending June 30, 2015 and 2014, respectively, and are reflected as both income and expense in the accompanying financial statements.

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, 2015 and 2014.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 27, 2015, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2015 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, 2014 are presented. As a result, the June 30, 2014 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2014 information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2014, 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 2012.

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 tax as "Other Expense."

CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard 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.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. This reclassification had no effect on previously reported change in net (deficit) assets.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2015	2014	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>(132,934)</u>	<u>(97,141)</u>	
	<u>\$ 84,741</u>	<u>\$ 120,534</u>	

Depreciation expense for the years ended June 30, 2015 and 2014 was \$35,793 and \$35,795, 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 expired on June 30, 2015. Subsequent to year end, the lease was renewed for three years and will expire on June 30, 2018. The School is to pay rent in the amount of \$36,050 a month from July 1, 2015 through June 30, 2016, \$37,151.50 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, CCC made cash contributions in the amount of \$131,000, and provided food services in the amount of \$287,711 to the School.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015 and 2014, 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.

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 87% and 88% of its total revenue from per pupil funding from the New York City Department of Education during the years ended June 30, 2015 and 2014, respectively.

Two grantors accounted for approximately 100% of grants receivable at June 30, 2015. Two grantors accounted for approximately 98% of grants receivable at June 30, 2014.

Two vendors accounted for approximately 75% of accounts payable at June 30, 2015. Two vendors accounted for approximately 59% of accounts payable at June 30, 2014.

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, 2015, 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, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the School in a separate letter dated October 27, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
October 27, 2015

Cultural Arts Academy Charter School At Spring Creek

Communication With Those Charged With Governance

OCTOBER 27, 2015



October 27, 2015

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, 2015 and are prepared to issue our report thereon dated October 27, 2015. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

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

As stated in our engagement letter dated May 18, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Cultural Arts Academy Charter School At Spring Creek. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 23, 2015.

C. Auditor Independence:

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

D. Qualitative Aspects of Accounting Practices:

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

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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 estimate's affecting the financial statements was:

Allowance for Doubtful Accounts:

As of June 30, 2015, Cultural Arts Academy Charter School At Spring Creek recorded grants and other receivables of \$17,567. 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, we concur with management's conclusion.

Depreciation:

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

Functional Statement Allocation:

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

F. Sensitive Disclosures Affecting the Financial Statements:

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

The disclosure of Risk Management in Note 6 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 2 audit adjustments that increased net assets by approximately \$12,000. In the prior year, there were 5 audit adjustments (including 2 reclassifying entries) that increased net assets by approximately \$267,000. The most significant adjustment was as follows:

1. To increase net assets by approximately \$12,000 to adjust expenses for items that were prepaid before the year end.

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, 2015.

J. Management Consultations with Other Independent Accountants:

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

K. Other Audit Findings or Issues:

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

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

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

Very truly yours,

MBAF CPAs, LLC

MBAF CPAs, LLC