

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

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FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2015)

# 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, 2016, 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, 2016, 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 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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 28, 2016, 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 28, 2016

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

STATEMENT OF FINANCIAL POSITION

June 30, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2015)

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
Cash	\$ 78,464	\$ 178,188
Cash - restricted	75,131	75,101
Grants receivable	53,502	17,567
Property and equipment, net	50,737	84,741
Prepaid expenses and other assets	20,000	31,985
	<u>\$ 277,834</u>	<u>\$ 387,582</u>
<b>LIABILITIES AND NET (DEFICIT) ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 100,523	\$ 72,202
Accrued salaries and other payroll related expenses	316,697	299,894
Deferred rent	13,108	-
	<u>430,328</u>	<u>372,096</u>
<b>NET (DEFICIT) ASSETS</b>		
Unrestricted	<u>(152,494)</u>	<u>15,486</u>
	<u>\$ 277,834</u>	<u>\$ 387,582</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, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	<b>2016</b>	<b>2015</b>
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 4,043,567	\$ 4,254,986
Government grants and contracts	205,009	109,624
	<u>4,248,576</u>	<u>4,364,610</u>
EXPENSES		
Program	4,075,219	4,288,746
Management and general	528,483	385,319
Fundraising	27,824	16,024
	<u>4,631,526</u>	<u>4,690,089</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(382,950)</u>	<u>(325,479)</u>
SUPPORT AND OTHER INCOME		
Contributions, grants and other income	2,636	131,030
In-kind contributions	105,232	287,711
Interest income	246	178
Miscellaneous income	106,856	81,233
	<u>214,970</u>	<u>500,152</u>
CHANGE IN NET (DEFICIT) ASSETS	(167,980)	174,673
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>15,486</u>	<u>(159,187)</u>
NET (DEFICIT) ASSETS - END OF YEAR	<u>\$ (152,494)</u>	<u>\$ 15,486</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, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	No. of Positions	Program Services			Supporting Services		
		General Education	Special Education	Total Program	Management and General	Fundraising	Total
		2016	2015	2016	2016	2016	2015
<b>Personnel services costs:</b>							
Instructional personnel	45	\$ 926,972	\$ 407,367	\$ 1,334,339	\$ 146,670	\$ 9,540	\$ 1,490,549
Non-instructional personnel	25	798,602	350,953	1,149,555	126,359	8,218	1,284,132
Total salaries and wages	70	1,725,574	758,320	2,483,894	273,029	17,758	2,774,681
Payroll taxes and employee benefits		389,516	171,173	560,689	61,593	3,959	626,241
Professional development		43,176	23,248	66,424	-	-	66,424
Legal fees		-	-	-	450	-	450
Audit and accounting fees		-	-	-	81,965	-	81,965
Professional fees		44,828	19,700	64,528	7,093	461	72,082
Curriculum and classroom expenses		37,230	16,361	53,591	5,891	383	59,865
Supplies and materials		17,820	7,829	25,649	2,819	183	28,651
Food services		76,360	33,557	109,917	12,082	786	122,785
Student services		71,588	38,548	110,136	-	-	110,136
Postage, printing, and copying		1,611	708	2,319	255	17	2,591
Insurance		30,705	13,494	44,199	4,858	316	49,373
Information technology		2,194	963	3,157	347	23	3,527
Non-capitalized equipment and furnishings		4,434	1,949	6,383	702	46	7,131
Occupancy and facility costs		326,474	143,472	469,946	51,656	3,360	524,962
Telephone		21,155	9,297	30,452	3,347	218	34,017
Depreciation		21,146	9,294	30,440	3,346	218	34,004
Bad debt expense		-	-	-	17,567	-	17,567
Office expense		9,376	4,119	13,495	1,483	96	15,074
		<b>\$ 2,823,187</b>	<b>\$ 1,252,032</b>	<b>\$ 4,075,219</b>	<b>\$ 528,483</b>	<b>\$ 27,824</b>	<b>\$ 4,631,526</b>
							<b>\$ 4,690,089</b>

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operating revenue and support	\$ 4,322,379	\$ 4,599,886
Cash paid to employees and suppliers	<u>(4,422,103)</u>	<u>(4,444,339)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(99,724)</u>	<u>155,547</u>
NET (DECREASE) INCREASE IN CASH	(99,724)	155,547
CASH - BEGINNING OF YEAR	<u>178,188</u>	<u>22,641</u>
CASH - END OF YEAR	<u><b>\$ 78,464</b></u>	<u><b>\$ 178,188</b></u>
Reconciliation of change in net (deficit) assets to net cash (used in) provided by operating activities:		
Change in net (deficit) assets	\$ (167,980)	\$ 174,673
Adjustments to reconcile change in net (deficit) assets to net cash (used in) provided by operating activities:		
Depreciation	34,004	35,793
Changes in operating assets and liabilities:		
Cash - restricted	(30)	(30)
Grants receivable	(35,935)	22,835
Prepaid expenses and other assets	11,985	8,488
Accounts payable and accrued expenses	28,321	(40,065)
Accrued salaries and other payroll related expenses	16,803	35,519
Deferred rent	<u>13,108</u>	<u>(81,666)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u><b>\$ (99,724)</b></u>	<u><b>\$ 155,547</b></u>

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



# CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

### 1. NATURE OF THE ORGANIZATION

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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 and the School is currently in the process of renewing their charter. 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 2016 and 2015, 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

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#### 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

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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##### **Cash**

Cash-restricted is an escrow account of \$75,131, 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 \$53,502 and \$17,567 at June 30, 2016 and 2015, respectively. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2016 and 2015. 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 and \$287,711 for the years ending June 30, 2016 and 2015, 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, 2016 and 2015.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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##### **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 28, 2016, which is the date the financial statements were available to be issued.

##### **Comparative Financial Information**

The June 30, 2016 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, 2015 are presented. As a result, the June 30, 2015 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2015 information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2015, 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 2013.

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

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Recent Accounting Pronouncements

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.

In February 2016, the FASB issued an accounting standard 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 standard 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 Organization is currently evaluating the effect the update will have on its financial statements.

## 3. LIQUIDITY

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The School incurred significant operating losses during the fiscal year 2016 and has a net deficit of \$152,494 at June 30, 2016.

Management obtained a letter from Christian Cultural Center Inc. ("CCC"), a related party whose founder is a board member of the School, committing to provide financial support through the next fiscal year end while the School reviews its operations to achieve efficiencies.

The School is working on securing more government funding, as well as additional funding from private grantors. Management believes that these actions will enable the School to continue operations through July 1, 2017.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

#### 4. PROPERTY AND EQUIPMENT

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Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>	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>(166,938)</u>	<u>(132,934)</u>	
	<u><b>\$ 50,737</b></u>	<u><b>\$ 84,741</b></u>	

Depreciation expense for the years ended June 30, 2016 and 2015 was \$34,004 and \$35,793, respectively.

#### 5. RELATED PARTY TRANSACTIONS

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The School had a five year operating lease agreement with CCC, a not-for-profit organization, which commenced on July 1, 2010 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, \$37,152 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 years ended June 30, 2016 and 2015, CCC provided food services to the School in the amounts of \$105,232 and \$287,711, respectively. In addition, the CCC contributed \$131,000 in cash during the year ended June 30, 2015.

#### 6. PENSION PLAN

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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, 2016 and 2015, the School did not contribute to the Plan.

#### 7. RISK MANAGEMENT

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

The School 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

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

#### 8. CONCENTRATIONS

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

The School received approximately 92% and 87% of its total revenue from per pupil funding from the New York City Department of Education during the years ended June 30, 2016 and 2015, respectively.

Two grantors accounted for approximately 99% of grants receivable at June 30, 2016. Two grantors accounted for approximately 100% of grants receivable at June 30, 2015.

Three vendors accounted for approximately 74% of accounts payable at June 30, 2016. Two vendors accounted for approximately 75% of accounts payable at June 30, 2015.



**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, 2016, 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 28, 2016.

**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 2016-01.

We noted certain other matters that we reported to management of the School in a separate letter dated October 28, 2016.

**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 28, 2016



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

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SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

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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

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### SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2016

#### Section II - Financial Statement Findings

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##### **Finding: 2016-01**

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

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

Cause: Ineffective management monitoring 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 for the School be in compliance with the NYSED fingerprinting requirements.

## CULTURAL ARTS ACADEMY CHARTER SCHOOL AT SPRING CREEK

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### SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2016

#### Views of responsible officials and planned corrective action:

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##### **Finding: 2016-01**

We agree to the findings; however, due to the circumstances of this individual who was originally part of CCC, he was denied clearance where he was told that his clearance is denied pending submission of satisfactory information. His file is currently pending review.

##### Planned Corrective Action:

Clear documented requirements will be implemented, monitored, communicated, and reported regarding personnel file documentation. As part of the review, the human resources team will be required to verify that NYSED personnel file requirements are fulfilled.