

**Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx**

Independent Auditor's Reports and Financial Statements

June 30, 2018

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
June 30, 2018

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Independent Auditor's Report

Board of Trustees
Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx

Report on Financial Statements

We have audited the accompanying financial statements of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities 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 from 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 entity'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 entity'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 Storefront Academy Charter School dba Storefront Academy Charter School South Bronx 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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 Storefront Academy Charter School dba Storefront Academy Charter School South Bronx'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 solely 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 effectiveness of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's 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 Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's internal control over financial reporting and compliance.

BKD, LLP

New York, New York
October 30, 2018

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Statement of Financial Position
June 30, 2018

Assets

Current Assets

Cash	\$ 40,909
Contributions and government grants receivable	151,532
Prepaid expenses and other assets	<u>13,981</u>
Total current assets	206,422

Restricted Cash	50,042
Fixed Assets, net	<u>345,955</u>

Total assets	<u><u>\$ 602,419</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 295,401
Accrued salaries and related liabilities	143,173
Due to management company	122,380
Note payable	<u>131,170</u>
Total current liabilities	692,124

Noncurrent Liabilities

Deferred rent expense	49,420
Note payable	<u>518,830</u>
Total liabilities	1,260,374

Net Assets – Unrestricted	<u>(657,955)</u>
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Total liabilities and net assets	<u><u>\$ 602,419</u></u>
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Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Statement of Activities
Year Ended June 30, 2018

Operating Revenues and Other Support	
Resident student enrollment	\$ 1,742,136
Students with disabilities	165,574
NYCDOE rental assistance revenue	416,347
Total state and local per-pupil operating revenues	<u>2,324,057</u>
Government grants and contracts – Federal	111,803
Government grants and contracts – State	57,872
Contributions	69,616
Contributed services	296,886
Interest	476
Other revenues	260
Total operating revenues and other support	<u>2,860,970</u>
Expenses	
Program services	
General education	2,051,704
Special education	581,801
Total program services	<u>2,633,505</u>
Supporting services	
Management and general	1,097,113
Total expenses	<u>3,730,618</u>
Change in Unrestricted Net Assets	(869,648)
Net Assets – Unrestricted, Beginning of Year	<u>211,693</u>
Net Assets – Unrestricted, End of Year	<u><u>\$ (657,955)</u></u>

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Statement of Cash Flows
Year Ended June 30, 2018

Operating Activities	
Change in net assets	\$ (869,648)
Items not requiring (providing) operating cash flows	
Depreciation	84,575
Changes in	
Contributions and government grants receivable	(25,838)
Prepaid expenses and other assets	86,456
Accounts payable and accrued expenses	213,262
Accrued salaries and related liabilities	(19,533)
Due to New York State Department of Education	(27,209)
Due to management company	43,301
Deferred rent expense	49,420
Net cash used in operating activities	<u>(465,214)</u>
Investing Activities	
Fixed asset acquisitions	(191,618)
Deposits to restricted cash	(25)
Net cash used in investing activities	<u>(191,643)</u>
Financing Activities	
Proceeds from a note payable	<u>650,000</u>
Net Change in Cash	(6,857)
Cash, Beginning of Year	<u>47,766</u>
Cash, End of Year	<u>\$ 40,909</u>

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Notes to Financial Statements
June 30, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Storefront Academy Charter School (the School) is an educational corporation that operates as a charter school in the Borough of Bronx, New York. On December 2, 2014, the Board of Regents and the Board of Trustees of the State University of New York, on behalf of the State Education Department (NYSED), granted the School a charter valid for a term of 5 years (expiring June 30, 2020) and renewable upon expiration. The School was granted a charter for grades K - 5.

The School has obtained a dba effective September 22, 2015 under the name Storefront Academy Charter School South Bronx.

The School was organized to provide children of varied academic strengths quality educational opportunities, preparing them academically, socially and emotionally to become critical thinkers, high-achieving students and well-rounded individuals. Working in partnership with families and community members, the School instills a powerful sense of self, and gives its students the tools to own the future and create meaningful adult lives. During fiscal year 2018, the School operated classes for 120 full-time equivalent general instruction students, of which 19 were special education students.

The School is supported primarily by state and local per-pupil operating revenues.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Restricted Cash

The School maintains cash in an escrow account, pursuant to its Charter Agreement, to payoff expenses in the event of dissolution of the School.

Government Grants Receivable

Accounts receivable from expense-based grants are recognized when earned. Interest is not accrued or recorded on outstanding receivables. The School provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Storefront Academy Charter School
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Notes to Financial Statements
June 30, 2018

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Leasehold improvements	10 years
Furniture and fixtures	5-7 years
Equipment	5 years
Computers	3 years

Long-lived Asset Impairment

The School evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended June 30, 2018.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Storefront Academy Charter School
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Notes to Financial Statements
June 30, 2018

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contributions of services also include services received from personnel of an affiliate.

Contribution revenue recognized from contributed services consisted of:

Legal fees	\$ <u>296,886</u>
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Government Grants

Support funded by grants is recognized as the School performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the School is subject to federal income tax on any unrelated business taxable income.

The School files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on time spent, square foot allocation and other methods.

Operating Leases

Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Subsequent Events

Subsequent events have been evaluated through October 30, 2018, which is the date the financial statements were available to be issued.

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Notes to Financial Statements
June 30, 2018

Note 2: Fixed Assets

Fixed assets at June 30, 2018 consists of:

Leasehold improvement	\$ 136,626
Furniture and fixtures	200,308
Equipment	111,296
Computers	<u>53,098</u>
	501,328
Accumulated depreciation	<u>(155,373)</u>
	 <u><u>\$ 345,955</u></u>

Note 3: Academic and Services Agreement

The School entered into an Academic and Business Service Agreement with Storefront Academy Harlem (SAH), an unrelated not-for-profit organization. The agreement provides academic, management and other administrative support services to the School. Pursuant to the terms of the agreement, the School shall pay SAH a service fee equivalent to 15% of the approved basic per-pupil operating revenues for the current year. In addition to the service fee, the School will reimburse SAH for a portion of the salaries and associated benefits of SAH personnel utilized by the School. In 2018, SAH agreed to waive the service fee for the year ended June 30, 2018 as well as the amounts due from 2017.

In March 2018, the School began leasing space located at Jackson Avenue from SAH. The lease is set to expire June 30, 2028. Rent expense for the year ended June 30, 2018 was \$174,847.

Minimum amounts to be paid under the terms of the lease are as follows:

2019	\$ 495,333
2020	584,833
2021	601,436
2022	620,435
2023	635,946
Thereafter	<u>3,426,309</u>
Total	<u><u>\$ 6,364,292</u></u>

There was rent payable of \$122,380 due to SAH at June 30, 2018.

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Notes to Financial Statements
June 30, 2018

Note 4: Note Payable to SAH

In February 2018, SAH extended an interest free, unsecured note to the School not to exceed \$275,000 and set to mature on June 30, 2019. SAH then allowed the School to draw down more funds and in June 2018, the note was amended to allow for an amount not to exceed \$925,000, with interest accruing at 3% on amounts outstanding as of the next draw down. The School can draw down on the note until August 31, 2019, and the note will mature on August 31, 2020. Monthly payments of \$25,000, including interest at 3% on the amounts outstanding as of June 12, 2018, the date of the next draw down, are due monthly beginning January 1, 2019. Interest was not recorded for the year ended June 30, 2018. The amount outstanding at June 30, 2018 was \$650,000.

Minimum payments are as follows:

2018	\$ 131,170
2019	288,379
2020	<u>230,451</u>
	<u>\$ 650,000</u>

Note 5: Operating Leases

In August 2017, the School began leasing space located at 149th Street in Bronx, NY, under a three year operating lease set to expire on July 31, 2020. Base rent of \$36,000 was to be due monthly beginning in August 2017, and increasing by 3% annually. In September 2017, the building was condemned and the School is in negotiations with the landlord for return of their security deposit, furniture and any amounts they claim to be due.

On September 13, 2017, the School entered into a two month operating lease, at \$20,000 a month, for space and furniture located at Willis Avenue in Bronx, NY. The lease was set to expire on October 31, 2017 and was extended through December 31, 2017 at \$25,000 a month. Beginning January 1, 2018, the School agreed to extend the lease on a month-to-month basis until their space located on Jackson Avenue (Note 3) was ready.

Rent expense was \$287,750 for the year ended June 30, 2018.

Note 6: Pension and Other Postretirement Benefit Plans

Employees of the School are eligible to participate in the Storefront Academy Harlem 403(b) Thrift Plan, administered by SAH. The Board of Trustees annually determines the amount, if any, of the School's contributions to the plan. The School did not make a discretionary contribution to the plan for the year ended June 30, 2018.

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Notes to Financial Statements
June 30, 2018

Note 7: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Litigation

The School is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the School. Events could occur that would change this estimate materially in the near term.

Operating Revenue

The School obtained approximately 87% of its operating revenues through its charter from New York State for the year ended June 30, 2018.

Supplementary Information

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Functional Expenses
Year Ended June 30, 2018

	No. of Positions	Program Services			Supporting Services	Total
		General Education	Special Education	Total	Management and General	
Personnel service costs						
Administrative personnel	8	\$ 332,157	\$ 61,432	\$ 393,589	\$ 275,404	\$ 668,993
Instructional personnel	18	737,459	296,518	1,033,977		1,033,977
Non-instructional personnel	6				218,691	218,691
Total salaries and staff	<u>32</u>	<u>1,069,616</u>	<u>357,950</u>	<u>1,427,566</u>	<u>494,095</u>	<u>1,921,661</u>
Payroll taxes and employee benefits		226,757	75,885	302,642	104,747	407,389
Legal fees					303,354	303,354
Audit fees					18,200	18,200
Professional fees					122,738	122,738
Repairs and maintenance		7,149	1,885	9,034	1,084	10,118
Curriculum and classroom		24,890	4,603	29,493		29,493
Student services		56,201	10,394	66,595		66,595
Staff development		5,549	1,463	7,012	841	7,853
Equipment and furnishings		3,796	1,001	4,797	575	5,372
Office expense		11,849	3,124	14,973	4,499	19,472
Building, land rent and lease		456,035	84,343	540,378	28,441	568,819
Utilities		1,029	190	1,219	64	1,283
Information technology		42,347	7,959	50,306	2,854	53,160
Marketing and recruiting		4,932	1,088	6,020	338	6,358
Insurance		18,982	4,939	23,921	2,752	26,673
Other expenses		54,766	14,437	69,203	8,302	77,505
Depreciation		67,806	12,540	80,346	4,229	84,575
Total expenses		<u>\$ 2,051,704</u>	<u>\$ 581,801</u>	<u>\$ 2,633,505</u>	<u>\$ 1,097,113</u>	<u>\$ 3,730,618</u>

**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**

Independent Auditor's Report

Board of Trustees
Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx

We have audited, in accordance with the 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 Storefront Academy Charter School dba Storefront Academy Charter School South Bronx, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities 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 Storefront Academy Charter School dba Storefront Academy Charter School South Bronx'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 Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's internal control. Accordingly, we do not express an opinion on the effectiveness of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx'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 entity'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-002 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2018-001.

Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's Response to Findings

Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Storefront Academy Charter School dba Storefront Academy Charter School South Bronx'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

New York, New York
October 30, 2018

**Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Findings and Responses
Year Ended June 30, 2018**

Findings Required to be Reported by *Government Auditing Standards*

**Reference
Number**

Finding

2018-001

Charter Escrow Account

Criteria or Specific Requirement

The School is required to maintain an escrow account in the amount of at least \$75,000 (\$25,000 a year for the first three years of operations) to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Condition

In 2018, the required \$25,000 deposit was not made.

Effect

The School was not in compliance with a requirement of the New York State Education Department.

Cause

Due to cash flow issues the required deposit was not made during the year ended June 30, 2018, but was made on July 9, 2018.

Recommendation

We recommend that the School maintain their escrow account at the required amount.

Views of Responsible Officials and Planned Corrective Actions

On July 9, 2018, the School deposited the last installment of \$25,000 into the account. See corrective action plan.

**Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Findings and Responses
Year Ended June 30, 2018**

**Reference
Number**

Finding

2018-002

Segregation of Duties

Criteria or Specific Requirement

The accounting functions should be properly segregated to ensure proper internal controls over financial reporting.

Condition

The current staff size of the School does not always allow for the proper segregation of duties related to cash receipts, disbursements and payroll.

Effect

Administrative staff has the ability to misappropriate assets with limited supervision.

Cause

The School has a single accountant performing multiple tasks.

Recommendation

We recommended that the School establish compensating controls in each area described above.

Views of Responsible Officials and Planned Corrective Actions

The School is actively seeking to expand their fiscal department. See corrective action plan.