

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

Independent Auditor's Report and Financial Statements

June 30, 2019



Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
June 30, 2019

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Independent Auditor's Report

Board of Trustees
Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Bronx, New York

Report on the 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, 2019, 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 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, 2019, 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.

Emphasis of Matter

As discussed in *Note 10* to the financial statements, in 2019, Storefront Academy Charter School adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information within the statement of functional expenses 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 audits 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, 2019, 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, 2019

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Statement of Financial Position
June 30, 2019

Assets

Current Assets

| | |
|--|---------------|
| Cash | \$ 482,899 |
| Contributions and government grants receivable | 36,762 |
| Prepaid expenses and other assets | 23,057 |
| Due from Storefront Academy Harlem | <u>24,055</u> |

Total current assets 566,773

| | |
|-----------------------------|----------------|
| Restricted cash | 75,078 |
| Property and equipment, net | <u>378,866</u> |

Total assets \$ 1,020,717

Liabilities and Net Assets

Current Liabilities

| | |
|--|---------------|
| Accounts payable and accrued expenses | \$ 119,903 |
| Accrued salaries and related liabilities | 212,921 |
| Note payable | 202,309 |
| Legal settlement | 47,539 |
| Due to Department of Education | <u>68,805</u> |

Total current liabilities 651,477

Noncurrent Liabilities

| | |
|-----------------------|----------------|
| Deferred rent expense | 284,035 |
| Legal settlement | 189,491 |
| Note payable | <u>446,188</u> |

Total liabilities 1,571,191

Net Assets Without Donor Restrictions (550,474)

Total liabilities and net assets \$ 1,020,717

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Statement of Activities
Year Ended June 30, 2019

Operating Revenues and Other Support

| | | | |
|--|----|-----------------|------------------|
| Resident student enrollment | | \$ | 3,501,094 |
| Students with disabilities | | | 260,711 |
| NYCDOE rental assistance revenue | | | <u>511,195</u> |
| Total state and local per-pupil operating revenues | | | 4,273,000 |
| Government grants and contracts – federal | | | 222,140 |
| Government grants and contracts – state | | | 104,714 |
| Contributions | | | 36,951 |
| Contributed services | | | 149,005 |
| Special events | \$ | 142,075 | |
| Less direct costs of special event | | <u>(30,689)</u> | 111,386 |
| Interest | | | 37 |
| Other revenues | | | <u>43,940</u> |
| Total operating revenues and other support | | | <u>4,941,173</u> |

Expenses

| | | | |
|------------------------|--|--|------------------|
| Program services | | | |
| General education | | | 2,894,365 |
| Special education | | | <u>601,610</u> |
| Total program services | | | 3,495,975 |
| Supporting services | | | |
| Management and general | | | <u>1,337,717</u> |
| Total expenses | | | <u>4,833,692</u> |

| | | | |
|---|--|----|-------------------------|
| Change in Net Assets Without Donor Restrictions | | | 107,481 |
| Net Assets Without Donor Restrictions, Beginning of Year | | | <u>(657,955)</u> |
| Net Assets Without Donor Restrictions, End of Year | | \$ | <u><u>(550,474)</u></u> |

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Statement of Functional Expenses
Year Ended June 30, 2019

| | ** No. of Positions | Program Services | | | Supporting Services Management and General | Direct Costs of Special Event | Total |
|--|---------------------------|----------------------|----------------------|---------------------|---|-------------------------------------|---------------------|
| | | General Education | Special Education | Total | | | |
| Personnel service costs | | | | | | | |
| Administrative personnel | 12 | \$ 344,066 | \$ 56,011 | \$ 400,077 | \$ 406,451 | \$ - | \$ 806,528 |
| Instructional personnel | 30 | 1,292,358 | 310,263 | 1,602,621 | - | - | 1,602,621 |
| Non-instructional personnel | 7 | - | - | - | 257,355 | - | 257,355 |
| Total personnel service costs | <u>49</u> | <u>1,636,424</u> | <u>366,274</u> | <u>2,002,698</u> | <u>663,806</u> | | <u>2,666,504</u> |
| Payroll taxes and employee benefits | | 323,901 | 74,338 | 398,239 | 132,746 | - | 530,985 |
| Legal fees | | - | - | - | 169,924 | - | 169,924 |
| Audit fees | | - | - | - | 1,700 | - | 1,700 |
| Professional fees | | - | 6,575 | 6,575 | 77,276 | - | 83,851 |
| Repairs and maintenance | | 25,509 | 4,699 | 30,208 | 3,357 | - | 33,565 |
| Curriculum and classroom | | 40,829 | 6,647 | 47,476 | - | - | 47,476 |
| Student services | | 13,573 | 2,210 | 15,783 | - | - | 15,783 |
| Food services | | 6,490 | 1,056 | 7,546 | - | - | 7,546 |
| Staff development | | 15,834 | 2,918 | 18,752 | 2,084 | - | 20,836 |
| Equipment and furnishings | | 17,102 | 3,151 | 20,253 | 2,251 | - | 22,504 |
| Office expense | | 20,870 | 3,845 | 24,715 | 5,758 | - | 30,473 |
| Building, land rent and lease | | 600,678 | 97,785 | 698,463 | 36,761 | - | 735,224 |
| Utilities | | 9,882 | 1,609 | 11,491 | 605 | - | 12,096 |
| Information technology | | 65,789 | 10,743 | 76,532 | 3,861 | - | 80,393 |
| Marketing and recruiting | | 17,891 | 3,044 | 20,935 | 800 | - | 21,735 |
| Insurance | | 24,347 | 4,464 | 28,811 | 3,073 | - | 31,884 |
| Interest | | - | - | - | 26,171 | - | 26,171 |
| Other expenses | | 120 | 22 | 142 | 202,946 | - | 203,088 |
| Depreciation | | 75,126 | 12,230 | 87,356 | 4,598 | - | 91,954 |
| Fundraising events | | - | - | - | - | 30,689 | 30,689 |
| Total expenses | | <u>2,894,365</u> | <u>601,610</u> | <u>3,495,975</u> | <u>1,337,717</u> | <u>30,689</u> | <u>4,864,381</u> |
| Less expenses deducted directly from revenues on the statement of activities and changes in net assets | | | | | | | |
| Direct costs of special event | | - | - | - | - | (30,689) | (30,689) |
| Total expenses reported by function on the statement of activities and changes in net assets | | <u>\$ 2,894,365</u> | <u>\$ 601,610</u> | <u>\$ 3,495,975</u> | <u>\$ 1,337,717</u> | <u>\$ -</u> | <u>\$ 4,833,692</u> |

** Supplemental information

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Statement of Cash Flows
Year Ended June 30, 2019

Operating Activities

| | |
|--|------------|
| Change in net assets | \$ 107,481 |
| Items not requiring (providing) operating cash flows | |
| Depreciation | 91,954 |
| Noncash legal fee settlement | 285,961 |
| Financed interest expense | 18,380 |
| Changes in | |
| Contributions and government grants receivable | 114,770 |
| Prepaid expenses and other assets | (9,076) |
| Due from Storefront Academy Harlem | (146,318) |
| Accounts payable and accrued expenses | (175,498) |
| Accrued salaries and related liabilities | 69,748 |
| Due to Department of Education | 68,805 |
| Deferred rent expense | 234,615 |
| | <hr/> |
| Net cash provided by operating activities | 660,822 |

Investing Activities

| | |
|---------------------------------------|-----------|
| Purchase of property and equipment | (124,865) |
| Deposits to restricted cash | (25,036) |
| | <hr/> |
| Net cash used in investing activities | (149,901) |

Financing Activities

| | |
|---|----------|
| Payments made on long-term legal settlement | (48,931) |
| Payments on note payable | (20,000) |
| | <hr/> |
| Net cash provided by financing activities | (68,931) |

Net Change in Cash 441,990

Cash, Beginning of Year 40,909

Cash, End of Year \$ 482,899

Supplemental Cash Flows Information

| | |
|------------------------|-----------|
| Cash paid for interest | \$ 26,054 |
|------------------------|-----------|

Noncash Financing Activities

| | |
|--|------------|
| Financing legal fee settlement | \$ 285,961 |
| Interest expense converted to note payable | \$ 18,380 |

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Notes to Financial Statements
June 30, 2019

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 through 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 2019, the School operated classes for approximately 260 full-time equivalent general instruction students, of which 32 were special education students.

The School also opened up a second charter school branch in Harlem starting with the school year 2020. Storefront Academy Charter School Harlem (SACSH) will operate under the same management and board of trustees as the School.

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.

Cash and Restricted Cash

The School considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019, cash equivalents consisted primarily of money market accounts.

As part of the School's charter agreement, the School agreed to establish a long-term reserve account to pay off expenses in the event of dissolution of the School.

At June 30, 2019, the School's cash accounts exceeded federally insured limits by approximately \$300,000.

Storefront Academy Charter School
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Notes to Financial Statements
June 30, 2019

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.

Property and Equipment

Property and equipment 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, 2019.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor- or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

At June 30, 2019, all net assets are without donor restrictions and are available to be used for operations.

Storefront Academy Charter School
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Notes to Financial Statements
June 30, 2019

State and Local Per-Pupil Operating Revenues

Revenues from the state and local governments resulting from the School's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. These grants are recorded as revenue by the School when services are rendered.

Contributions

Contributions are provided to the School either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

| Nature of the Gift | Value Recognized |
|--|---|
| <i>Conditional gifts, with or without restriction</i> | |
| Gifts that depend on the School overcoming a donor-imposed barrier to be entitled to the funds | Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met |
| <i>Unconditional gifts, with or without restriction</i> | |
| Received at date of gift – cash and other assets | Fair value |
| Received at date of gift – property, equipment and long-lived assets | Estimated fair value |
| Expected to be collected within one year | Net realizable value |
| Collected in future years | Initially reported at fair value determined using the discounted present value of estimated future cash flows technique |

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Storefront Academy Charter School
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Notes to Financial Statements
June 30, 2019

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>\$ 149,005</u> |
|------------|-------------------|

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.

Leases

Leases are classified as operating or capital leases in accordance with the terms of the underlying agreements. Operating lease payments are charged to equipment and auto leases expense. Operating lease expense is recorded on the straight-line basis over the life of the lease, unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case that basis shall be used. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense. In 2019, all leases were classified as operating leases.

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 is exempt from filing 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 separate statement of functional expenses. The statement of functional expenses present the natural classification detail of expenses by function. All of these expense line items are allocated based on staffing allocations to the main functional areas of the school: general education, special education and management/general.

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Notes to Financial Statements
June 30, 2019

Note 2: Property and Equipment

| | |
|--------------------------|--------------------------|
| Leasehold improvement | \$ 162,626 |
| Furniture and fixtures | 204,366 |
| Equipment | 206,450 |
| Computers | <u>52,751</u> |
| | 626,193 |
| Accumulated depreciation | <u>(247,327)</u> |
| | <u><u>\$ 378,866</u></u> |

Note 3: Legal Settlement

On November 1, 2018, the School entered into a settlement with Melrose LLC, a former landlord, due to the School's inability to fulfill the terms of their lease. The interest rate recorded for imputed interest is 3 percent. Minimum amounts to be paid under the terms of the settlement as of June 30, 2019 are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------|--------------------------|------------------------|--------------------------|
| 2020 | \$ 47,539 | \$ 6,461 | \$ 54,000 |
| 2021 | <u>189,491</u> | <u>3,104</u> | <u>192,595</u> |
| | <u><u>\$ 237,030</u></u> | <u><u>\$ 9,565</u></u> | <u><u>\$ 246,595</u></u> |

Note 4: 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 percent 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 2019, SAH agreed to waive the service fee for the year ended June 30, 2019 as well as the amounts due from 2018.

Storefront Academy Charter School
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Notes to Financial Statements
June 30, 2019

In March 2018, the School began leasing space located at Jackson Avenue from SAH. In May 2019, the lease was amended to include additional space. The lease is set to expire June 30, 2028. Rent expense for the year ended June 30, 2019 was \$735,224. Minimum amounts to be paid under the terms of the lease are as follows:

| | |
|------------|---------------------|
| 2020 | \$ 756,897 |
| 2021 | 777,303 |
| 2022 | 801,189 |
| 2023 | 821,220 |
| 2024 | 841,749 |
| Thereafter | <u>3,577,014</u> |
| Total | <u>\$ 7,575,372</u> |

Additionally, in May 2019, the School agreed to a lease for SACHS that will begin to be paid off starting July 2019. The lease is set to expire June 30, 2022. Minimum amounts to be paid under the terms of the lease are as follows:

| | |
|------|---------------------|
| 2020 | \$ 413,289 |
| 2021 | 619,934 |
| 2022 | <u>826,578</u> |
| | <u>\$ 1,859,801</u> |

Note 5: Note Payable to SAH

In February 2018, Storefront Academy Harlem extended a \$275,000 unsecured, interest-free loan to the School with repayment due on June 30, 2019. In April 2018, the loan was amended to increase the note by an additional \$650,000 and to include interest at 3 percent on amounts outstanding. In addition, the loan repayment terms were amended for repayments to begin on January 1, 2019 with a loan maturity date of August 21, 2020.

In May 2019, the loan was amended for a second time to combine the amounts advanced of \$650,000 and the accrued interest outstanding as of that date of \$18,380, into one new loan payable of \$668,380. Interest will be charged at 3 percent on amounts outstanding. From May 2019 through December 2019, the School is to make monthly repayments of principal and interest in the amount of \$11,600, which will be subsequently increased to \$25,000 beginning January 1, 2020. The note is set to mature with a balloon payment of \$278,431 in February 2021. The amount outstanding at June 30, 2019 was \$648,497.

Minimum payments are as follows:

| | |
|------|-------------------|
| 2020 | \$ 202,310 |
| 2021 | <u>446,187</u> |
| | <u>\$ 648,497</u> |

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Notes to Financial Statements
June 30, 2019

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, 2019.

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:

Operating Revenue

The School obtained approximately 90 percent of its operating revenues through its charter from New York State for the year ended June 30, 2019.

Note 8: Liquidity and Availability

The School's financial assets available within one year of the balance sheet date for general expenditures as of June 30, 2019 are:

| | |
|---|-------------------|
| Current financial assets at year end | |
| Cash | \$ 482,899 |
| Contributions and government grants receivable | 36,762 |
| Due from management company | <u>24,055</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 543,716</u> |

The financial assets of the School without donor restrictions or restricted by state laws, are available for general expenditures. As part of liquidity management, the School invests cash in excess of daily requirements in short-term investments. During the year ended June 30, 2019, the level of liquidity and reserves was managed within the policy requirements.

Note 9: Subsequent Events

Subsequent events have been evaluated through October 30, 2019, 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, 2019

Note 10: Change in Accounting Principle

In 2019, the School adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statements of Activities and Functional Expenses

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.
- Expenses are reported by both nature and function in one location.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

This change had no impact on previously reported total change in net assets.

Note 11: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018 for nonpublic entities and any interim periods within annual reporting periods that begin after December 15, 2019. The School is in the process of evaluating the impact the amendment will have on the financial statements.

Storefront Academy Charter School
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Notes to Financial Statements
June 30, 2019

FASB Releases Not-for-Profit Accounting Standard for Grants and Contributions

ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current generally accepted accounting principles. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance. For non-public entities, the standard will be effective for reporting periods beginning on or after December 15, 2018.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the School annual periods beginning after December 15, 2019 and any interim periods within annual reporting periods that begin after December 15, 2020. A board decision was reached by FASB at its October 16, 2019 meeting to delay the effective date of Topic 842 by one year for these entities (*i.e.*, fiscal year beginning after December 15, 2020). Issuance of a final ASU related to this decision is expected later in 2019. The School is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have an impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

**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
Bronx, New York

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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019. Our report contains an "Emphasis of Matter" paragraph regarding a change in accounting principles.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

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. We consider the deficiency described as item 2019-002 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.

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, 2019

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Findings and Responses
Year Ended June 30, 2019

Findings Required to be Reported by *Government Auditing Standards*

| Reference Number | Finding |
|-----------------------------|--|
| 2019-001 | <p><i>Internal Controls Over Credit Card Use</i></p> <p>Criteria or Specific Requirement</p> <p>The School should establish policies surrounding the use of credit cards to minimize the ability for abuse.</p> <p>Condition</p> <p>Currently the School is not requiring authorization be obtained prior to the credit card being used. In addition, receipts from credit card purchases are not being provided with explanations for business purpose of all items charged.</p> <p>Effect</p> <p>Anyone provided access to the credit card has the ability to misappropriate the School's assets.</p> <p>Cause</p> <p>The School's former bookkeeper was located in a foreign country and it was impractical to send the support. Due to this, the School became lax in their collection of credit card backup.</p> <p>Recommendation</p> <p>We recommend that procedures be created and implemented documenting approval of the business expense prior to utilizing the credit cards, with the receipt being attached after the credit card is used. For expenses incurred by the CEO, we recommend that their charges be reviewed by a member of the board on a regular basis, or at a minimum at the board meetings.</p> <p>Views of Responsible Officials and Planned Corrective Actions</p> <p>The School will be implementing procedures surrounding credit card use as per the recommendation.</p> |

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2019

| Reference Number | Finding |
|-----------------------------|--|
| 2019-002 | <p><i>Segregation of Duties</i></p> <p>Criteria or Specific Requirement</p> <p>The accounting functions should be properly segregated to maintain proper internal controls over financial reporting.</p> <p>Condition</p> <p>The current staff size of the School does not always allow for the proper segregation of duties related to cash disbursements and payroll.</p> <p>Effect</p> <p>Administrative staff has the ability to misappropriate assets with limited supervision.</p> <p>Cause</p> <p>The School has two accountants performing multiple tasks.</p> <p>Recommendation</p> <p>We recommended that the School establish compensating controls in each area described above.</p> <p>Views of Responsible Officials and Planned Corrective Actions</p> <p>Due to the size of the School, procedures have been put in place to include members of the board in a review capacity to detect any misappropriation of assets in a timely manner.</p> |

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

| Reference Number | Summary of Finding | Status |
|-----------------------------|--|--------------------------|
| 2018-001 | <i>Charter Escrow Account</i> 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 was corrected. |
| 2018-002 | <i>Segregation of Duties</i> The current staff size of the School does not always allow for the proper segregation of duties related to cash receipts, disbursements and payroll. | Unresolved (2019-002) |

Board of Trustees and Management
Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Bronx, New York

As part of our audit of the financial statements of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx (the School) as of and for the year ended June 30, 2019, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The School's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Revenue recognition

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Revenue recognition
- Allocation of expenses by functional category

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Proposed Audit Adjustments Recorded

- Adjustment required to remove accrued audit fees for the 2019 audit
- To adjust the deferred rent payable for new lease
- To adjust the legal settlement for imputed interest
- To write off accounts payable no longer payable
- To record interest expense on the note payable to Storefront Academy Harlem
- To decrease subsidy funding for amount expended

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the School's Accounting Principles

No matters are reportable.

Disagreements with Management

No matters are reportable.

Consultation with Other Accountants

No matters are reportable.

Significant Issues Discussed with Management

No matters are reportable.

Difficulties Encountered in Performing the Audit

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (attached)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

Substantial Doubt About the School's Ability to Continue as a Going Concern

As required by accounting standards, management is required to evaluate the School's ability to continue as a going concern for a reasonable period of time and provide disclosures related to the School's ability to continue as a going concern. The following events or conditions that, when considered in the aggregate, indicate there could be substantial doubt about the School's ability to continue as a going concern for a reasonable period of time:

- Net asset deficit
- Negative current ratio

Based on current year's operations and management's plan we concluded that the School's financial position does not raise substantial doubt about its ability to continue as a going concern for a reasonable period of time.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the School as of and for the year ended June 30, 2019, 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, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 of the School's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 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.

We observed the following matters that we consider to be a material weakness or a significant deficiency.

Material Weakness

Internal Controls Over Credit Card Use

During the course of the audit we noted that for 43 of 52 credit card charges tested, support was unable to be provided substantiating the business purpose for the expense incurred. We recommend that procedures be created and implemented documenting approval of the business expense prior to utilizing the credit cards, with the receipt being attached after the credit card is used. For expenses incurred by the CEO, we recommend that their charges be reviewed by a member of the Board on a regular basis, or at a minimum at the board meetings.

Significant Deficiency

Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting. Certain individuals within the School have incompatible duties in certain financial reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the School's assets and ensure correct financial reporting. Management believes they have implemented compensating controls to help mitigate the risks of material misstatement.

Following is a summary of incompatible duties we identified. The Board and management should evaluate the costs versus benefits of further segregating these duties or adding monitoring or other compensating controls to reduce the associated risk.

Cash Disbursements and Payroll Cycle

The Director of Finance and Finance Associate have access, recording and/or monitoring duties within the cash disbursements and payroll cycles for which oversight controls occur after the actual disbursements occur or the issuance of payroll. The reviews which occur at month-end are designed to be detective in nature but not preventative with respect to errors and/or fraud occurring. We recommend these oversight controls continue to be performed with precision and on a timely basis to minimize the associated risks.

Journal Entries

The Director of Finance is currently the only employee recording journal entries. There is no detailed review or approval over journal entries posted. We recommend that a member from the Board of Trustees review a printout of journal entries posted on a monthly basis with their supporting documentation and sign off on them as appropriate, indicating review.

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Executive Reimbursement

We noted there were almost daily charges for transportation to and from the School for the CEO. We recommend that the School review this policy to determine if this should be included as part of the CEO compensation and be reported on the CEO's W-2.

Conflict of Interest Policy

We noted that completed conflict of interest disclosure forms were not able to be provided for seven of the eleven board members. Conflict of interest disclosure forms should be completed on an annual basis and maintained for members of the board as well as key employees. As of July 1, 2014, the *Non-Profit Revitalization Act of 2013* went into effect. One of the provisions requires that conflict-of-interest attestations by each board member and key employee be signed and reviewed by the Board of Trustees annually.

FASB Issues New Revenue Recognition Standard

The model for revenue recognition is changing with the Financial Accounting Standards Board's (FASB) release on May 28, 2014 of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (the ASU). Since 2008, FASB and the International Accounting Standards Board (IASB) have been working jointly on developing a single principles-based model for recognizing revenue. The goal of the final standard is to improve consistency of requirements, comparability of revenue recognition practices and usefulness of disclosures.

The ASU applies to all contracts with customers, other than those within the scope of other standards, such as leases, insurance, financing arrangements, financial instruments and guarantees (other than product or service warranties). The ASU does not apply to other parties to a contract who are not customers.

The core principle of the new model is that an entity would recognize revenue as it transfers goods or services to customers in an amount that reflects the consideration it expects to receive. In order to achieve that core principle, an entity would apply a five-step model.

The five-step application is as follows:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the separate performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the separate performance obligations in the contract.
- Step 5: Recognize revenue when (or as) performance obligations are satisfied.

Outlined below are the significant changes to expect from the new revenue recognition standard.

Under the Current Guidance

1. There are several requirements for recognizing revenue, including many that are industry-specific.
2. Most companies provide little disclosure information about revenue contracts; disclosures usually relate to accounting policies and segment reporting.
3. Some goods or services promised to a customer in a contract might represent separate obligations to the customer but could be determined to not be distinct revenue generating transactions.
4. In a multiple deliverable arrangement, the amount of consideration allocated to a delivered item is limited to the amount that is not contingent on the future delivery of goods or services.
5. Accounting for variable consideration varies from industry to industry.

Under the New Guidance

1. There will be consistent principles, regardless of industry, for recognizing revenue.
2. There is now a cohesive set of disclosure requirements. These disclosures will provide users of the financial statements with quantitative and qualitative information regarding revenue recognition policies and how they are applied.
3. Organizations will need to go through the five-step process outlined above.
4. Organizations will determine the transaction price. The transaction price will then be allocated to each performance obligation, except when a discount or some sort of variable consideration can be attributed entirely to one or more performance obligations in the contract.
5. Variable consideration will be included in the transaction price as long as it is deemed probable that a significant reversal of revenue will not occur. The new model includes consideration for various types of variable consideration, such as rebates, discounts bonuses or a right of return.

Entities can apply the new standard using either the full retrospective method—including the optional application of certain practical expedients—or use an alternative transition method. The alternative transition method requires an entity to apply the new guidance only to contracts in process under legacy U.S. generally accepted accounting principles (GAAP) at the date of initial application and recognize the cumulative effect of adoption as an adjustment to the opening balance of retained

earnings in the year of initial application. An entity choosing to apply the alternative transition method would not restate comparative years, but it would be required to provide additional disclosures in the initial year of adoption.

For the School, the standard will be effective for fiscal year 2020.

FASB Releases Not-for-Profit Accounting Standard for Grants and Contributions

On June 21, 2018, FASB issued ASU 2018-08. This standard clarifies existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional.

If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional.

FASB expects that the new standard could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current GAAP. Because of this, it believes the clarifying guidance about whether a contribution is conditional or unconditional, which affects the timing of revenue recognition, is important. Both the recipient and resource provider would equally apply the guidance.

For the School, the standard will be effective for fiscal year 2020.

FASB Releases Not-for-Profit Accounting Standard for Leases

On February 25, 2016, FASB issued ASU 2016-02, *Leases* (Topic 842), the long-awaited new standard on lease accounting.

Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases, and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today. The other type of lease (operating leases) will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

For the School, the final leases standard will be effective for fiscal years beginning after December 15, 2019 and interim periods thereafter.

A Board decision was reached by FASB to delay the effective date of Topic 842 by one year for these entities (*i.e.*, fiscal year beginning after December 15, 2020). Issuance of a final ASU related to this decision is expected later in 2019.

This communication is intended solely for the information and use of management, the Board of Trustees and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

New York, New York
October 30, 2019

Storefront Academy Charter School

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

| | Before Misstatements | Misstatements | Subsequent to Misstatements | % Change |
|-------------------------|-------------------------|---------------|--------------------------------|----------|
| Current Assets | 566,773 | 0 | 566,773 | 0.00% |
| Non-Current Assets | 453,944 | 0 | 453,944 | 0.00% |
| Current Liabilities | (651,477) | 0 | (651,477) | 0.00% |
| Non-Current Liabilities | (919,714) | 0 | (919,714) | 0.00% |
| Current Ratio | 0.87 | | 0.87 | 0.00% |
| Total Assets | 1,020,717 | 0 | 1,020,717 | 0.00% |
| Total Liabilities | (1,571,191) | 0 | (1,571,191) | 0.00% |
| Net Assets | 550,474 | 0 | 550,474 | 0.00% |
| Revenues & Income | (4,941,173) | 0 | (4,941,173) | 0.00% |
| Costs & Expenses | 4,833,692 | 18,200 | 4,851,892 | 0.38% |
| Net Income | (107,481) | 18,200 | (89,281) | -16.93% |

PAJE Scope: \$3,080

Use the New BKD custom ribbon to modify the PAIF schedule

| Description | Location or Business Unit | Financial Line Item | AWP REF | Factual (F), Judgmental (J), or Projected (P) | Assets | | Liabilities | | X Non Tax | Revenues & Income | Costs & Expenses | Net Assets | Net Effect on Following Year | | Post to AWP305? | Management's Reason(s) for Not Making an Adjustment to the FFS | |
|--|---------------------------|---|---------|---|---------|-------------|-------------|-------------|-----------|-------------------|------------------|------------|------------------------------|------------|-----------------|--|-------------------|
| | | | | | Current | Non-Current | Current | Non-Current | | DR (CR) | DR (CR) | DR (CR) | DR (CR) | Net Income | Net Assets | | Yes (Y) or No (N) |
| | | | | | | | | | | | | | | | | | |
| In fiscal 2018, SACS accrued for the 2018 audit as opposed to expensing the fees as incurred in 2019 | | | 575 | F | 0 | 0 | 0 | 0 | | 0 | 18,200 | (18,200) | 0 | 0 | Y | Immaterial to the FS as a whole | |
| | | Professional fees expense net assets without donor restrictions | | | | | | | | | 18,200 | (18,200) | | | | | |
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**STOREFRONT
ACADEMY**
CHARTER SCHOOLS

Expand the Possible. Own the Future.

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Susan K. Reid
Carrie Sealy

October 30, 2019

BKD, LLP

Certified Public Accountants
655 Third Ave, 12th Floor
New York, NY 10017

We are providing this letter in connection with your audit of our financial statements of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx as of and for the year ended June 30, 2019. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

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

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 1, 2019, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

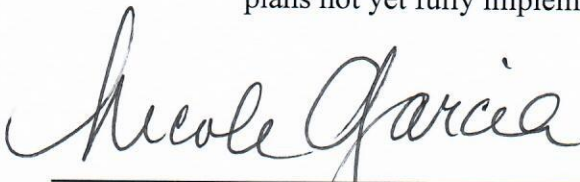
4. We acknowledge the Organization is not a conduit debt obligor whose debt securities are listed, quoted or traded on an exchange or an over-the-counter market. As a result, we acknowledge the Organization does not meet the definition of a “public entity” under generally accepted accounting principles for certain accounting standards.
5. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
6. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of trustees’ meetings held through the date of this letter.
 - (e) All significant contracts and grants.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.
8. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Organization procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net assets.
9. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
10. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to BKD any and all known reportable tax transactions.

11. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, customers, regulators, suppliers or others.
13. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Organization may deal if the Organization can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Organization.
14. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the statement of financial position date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the Organization is contingently liable.

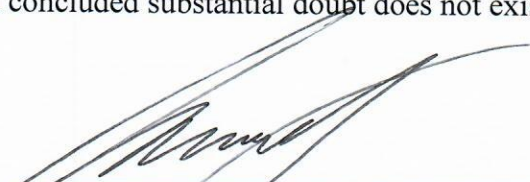
15. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
16. We have no reason to believe the Organization owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
17. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
18. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables, including pledges.
 - (b) Purchase commitments in excess of normal requirements or above prevailing market prices.
19. Except as disclosed in the financial statements, the Organization has:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
20. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of financial position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
21. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

22. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
23. With respect to any nonattest services you have provided us during the year, including assistance with the preparation of the financial statements and tax returns:
- (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
24. We are an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.
25. We have identified to you any activities conducted having both fund raising and program or management and general components (joint activities) and have allocated the costs of any joint activities in accordance with the provisions of FASB ASC 958-720-45.
26. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
27. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
28. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

29. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
30. We have a process to track the status of audit findings and recommendations.
31. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
32. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
33. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.



Dr. Nicole Garcia, CEO



Stuart Wolf, Director of Finance