

**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	Direct Costs of Special Event	Total
		General Education	Special Education	Total	Management and General		
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>	1,636,424	366,274	2,002,698	663,806	-	2,666,504
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		2,894,365	601,610	3,495,975	1,337,717	30,689	4,864,381
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	<u>234,615</u>
Net cash provided by operating activities	<u>660,822</u>
Investing Activities	
Purchase of property and equipment	(124,865)
Deposits to restricted cash	<u>(25,036)</u>
Net cash used in investing activities	<u>(149,901)</u>
Financing Activities	
Payments made on long-term legal settlement	(48,931)
Payments on note payable	<u>(20,000)</u>
Net cash provided by financing activities	<u>(68,931)</u>
Net Change in Cash	441,990
Cash, Beginning of Year	<u>40,909</u>
Cash, End of Year	<u><u>\$ 482,899</u></u>
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>
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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.

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><u>543,716</u></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)