

**STOREFRONT ACADEMY HARLEM**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**JUNE 30, 2016**

# **STOREFRONT ACADEMY HARLEM**

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## **Independent Auditor's Report**

**Board of Trustees  
Storefront Academy Harlem**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Storefront Academy Harlem, which comprise the balance sheet as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Harlem as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Storefront Academy Harlem's June 30, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Loeb + Troper LLP*

November 28, 2016

## STOREFRONT ACADEMY HARLEM

## BALANCE SHEET

JUNE 30, 2016

(With Summarized Financial Information for June 30, 2015)

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 133,686	\$ 59,274
Investments (Note 3)	87,366	51,137
Contributions receivable	69,250	98,600
Government services receivable	189,491	120,149
Due from Storefront Academy Charter School (Note 1)	192,199	277,155
Prepaid expenses and other receivables	<u>129,298</u>	<u>68,883</u>
Total current assets	801,290	675,198
Cash (Note 6)	1,383,319	1,343,574
Investments (Note 3)	2,005,733	2,103,245
Fixed assets - net (Note 4)	<u>1,755,294</u>	<u>1,762,860</u>
Total assets	<u>\$ 5,945,636</u>	<u>\$ 5,884,877</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 209,341	\$ 114,706
Accrued salaries and related benefits	<u>192,811</u>	<u>187,320</u>
Total current liabilities	<u>402,152</u>	<u>302,026</u>
Net assets (Exhibit B)		
Unrestricted (Notes 6 and 7)	3,509,796	3,375,499
Temporarily restricted (Note 5)	111,157	284,821
Permanently restricted (Note 7)	<u>1,922,531</u>	<u>1,922,531</u>
Total net assets	<u>5,543,484</u>	<u>5,582,851</u>
Total liabilities and net assets	<u>\$ 5,945,636</u>	<u>\$ 5,884,877</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STOREFRONT ACADEMY HARLEM

## EXHIBIT B

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016  
(With Summarized Financial Information  
for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Revenues, gains and other support					
Contributions (including in-kind contributions of \$51,671 and \$199,120 in 2016 and 2015, respectively) (Note 2)	\$ 1,799,670	\$ 124,607		\$ 1,924,277	\$ 2,112,409
Government service revenues	363,541			363,541	443,540
Special events revenues	1,277,348			1,277,348	857,018
Investment income (Note 3)	95,000			95,000	95,000
Management fees (Note 1)	496,375			496,375	118,709
Rental income (Note 8)	277,500			277,500	34,687
Other revenues	23,926			23,926	21,128
Net assets released from restrictions (Note 5)	295,835	(295,835)			
Total revenues, gains and other support	<u>4,629,195</u>	<u>(171,228)</u>		<u>4,457,967</u>	<u>3,682,491</u>
Expenses (Exhibit D)					
Program services					
Educational services	2,689,173			2,689,173	2,948,044
Charter School management	574,395			574,395	
Total program services	<u>3,263,568</u>			<u>3,263,568</u>	<u>2,948,044</u>
Management and general	454,954			454,954	485,034
Fundraising	472,463			472,463	489,153
Direct cost of special events	199,339			199,339	142,525
Total expenses	<u>4,390,324</u>			<u>4,390,324</u>	<u>4,064,756</u>
Change in net assets from operations	238,871	(171,228)		67,643	(382,265)
Investment income (Note 3)	(104,574)	(2,436)		(107,010)	(77,255)
Comprehensive campaign contributions (Note 6)					59,488
Change in net assets (Exhibit C)	134,297	(173,664)		(39,367)	(400,032)
Net assets - beginning of year	<u>3,375,499</u>	<u>284,821</u>	<u>\$ 1,922,531</u>	<u>5,582,851</u>	<u>5,982,883</u>
Net assets - end of year (Exhibit A)	<u>\$ 3,509,796</u>	<u>\$ 111,157</u>	<u>\$ 1,922,531</u>	<u>\$ 5,543,484</u>	<u>\$ 5,582,851</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**STOREFRONT ACADEMY HARLEM**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (39,367)	\$ (400,032)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Donated fixed assets		(34,300)
Depreciation	131,533	109,892
Permanently restricted contributions		(75,000)
Net loss (gain) on investments	14,180	(17,347)
Change in value of accrued postretirement benefits		
Decrease (increase) in assets		
Contributions receivable	29,350	(37,606)
Government services receivable	(69,342)	(63,510)
Due from Storefront Academy Charter School	(38,802)	(153,397)
Prepaid expenses and other receivables	(60,415)	(31,522)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	94,635	5,376
Accrued salaries and related benefits	5,491	(59,377)
	<u>67,263</u>	<u>(756,823)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Purchase of investments	(609,255)	(640,454)
Proceeds from sale of investments	656,358	684,499
Fixed asset acquisitions	(123,967)	(127,855)
Loans to Storefront Academy Charter School		(123,758)
Repayment of loan to Storefront Academy Charter School	123,758	
Decrease (increase) in cash and cash equivalents designated for long-term purposes	(39,745)	729,438
	<u>7,149</u>	<u>521,870</u>
Net cash provided by investing activities		
Cash flows from financing activities		
Proceeds from permanently restricted contributions	-	75,000
	<u>-</u>	<u>75,000</u>
Net change in cash	74,412	(159,953)
Cash - beginning of year	<u>59,274</u>	<u>219,227</u>
Cash - end of year	<u>\$ 133,686</u>	<u>\$ 59,274</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STOREFRONT ACADEMY HARLEM

EXHIBIT D

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016  
(With Summarized Financial Information  
for the Year Ended June 30, 2015)

	Program Services			Management and General	Fund- Raising	Direct Cost of Special Events	Total	
	Educational Services	Charter School Management	Total				2016	2015
Salaries	\$ 1,410,050	\$ 306,565	\$ 1,716,615	\$ 247,558	\$ 296,975		\$ 2,261,148	\$ 2,182,096
Payroll taxes and employee benefits	333,447	26,957	360,404	61,544	65,598		487,546	439,763
Total salaries and related expenses	1,743,497	333,522	2,077,019	309,102	362,573		2,748,694	2,621,859
Occupancy	72,860	240,873	313,733	17,772	6,521		338,026	124,186
Professional fees (Note 2)	169,694		169,694	48,884	21,374		239,952	378,740
Supplies	148,567		148,567	408	4,586		153,561	76,012
Telephone and internet charges	70,194		70,194	27,374			97,568	122,168
Printing	14,029		14,029	725	11,462		26,216	33,873
Transportation	8,382		8,382	1,797	1,807		11,986	19,836
Equipment and maintenance	9,238		9,238	37,372			46,610	46,486
Insurance	105,529		105,529	3,410	3,134		112,073	106,701
Postage	4,904		4,904	308	5,596		10,808	7,165
Staff development	17,371		17,371		3,111		20,482	12,819
Event rentals and other expenses						\$ 143,384	143,384	98,879
Student activities	22,475		22,475				22,475	14,933
Depreciation	124,214		124,214	3,661	3,658		131,533	109,892
Food	85,054		85,054	337	10,095	55,955	151,441	149,212
Scholarships	84,848		84,848				84,848	64,268
Bank charges and other fees	8,317		8,317	3,433	1,523		13,273	19,372
Community outreach				248	412		660	1,404
Bad debt								40,000
Miscellaneous				123	36,611		36,734	16,951
Investment advisory fees (Note 3)				1,274			1,274	469
Total expenses	2,689,173	574,395	3,263,568	456,228	472,463	199,339	4,391,598	4,065,225
Less investment advisory fees deducted directly from revenues on the statement of activities				(1,274)			(1,274)	(469)
Total expenses (Exhibit B)	\$ 2,689,173	\$ 574,395	\$ 3,263,568	\$ 454,954	\$ 472,463	\$ 199,339	\$ 4,390,324	\$ 4,064,756

See independent auditor's report.

The accompanying notes are an integral part of these statements.



## STOREFRONT ACADEMY HARLEM

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

#### NOTE 1 - NATURE AND PURPOSE OF ORGANIZATION

Storefront Academy Harlem (the "School"), located in the Central Harlem neighborhood of New York City, was organized in the State of New York in 1966 as a nonprofit organization for the purpose of providing a tuition-free independent education for approximately 175 neighborhood children attending pre-school through eighth grade.

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The School is supported primarily by contributions and special events revenues.

On June 4, 2014, the School was approved by the Charter School Committee of the State University of New York to establish a charter school in the Bronx, called Storefront Academy Charter School (SACS), an unrelated entity. The School entered into an Academic and Business Service Agreement (agreement) with SACS under which the School provides academic, management and other administrative support services to SACS. Pursuant to the terms of the agreement, SACS shall pay the School a service fee equivalent to 15% of the approved basic per-pupil operating revenues for the current year. In addition to the service fee, SACS will reimburse the School for a portion of the salaries and associated benefits of personnel utilized by SACS. The total charged to SACS was \$496,375 in 2016.

In 2015, the School provided a preoperating loan to SACS of \$123,758. The loan was non-interest-bearing, due on demand and repaid in July 2015.

In addition, the School paid for certain expenses on behalf of SACS, and the amount due to the School at June 30, 2016 was \$192,199.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of accounting*** - The financial statements are prepared on the accrual basis of accounting.

***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 and expenses during the reporting period. Actual results could differ from those estimates.

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments** - Investments are recorded at fair value. The School invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect the School's financial statements.

**Contributions receivable** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

**Government services receivables** - Government services receivables are recorded when services are rendered and the School meets the contractual requirements of the governmental agency.

**Management fees/receivables** - Management fees are recognized when earned. The School charges SACS fees for management services based on signed agreements. Receivables are recorded for services rendered but unpaid. Interest is not recorded on outstanding receivables. Management fees receivable have been included in Due from Storefront Academy Charter School (Note 1).

**Allowance for doubtful accounts** - Bad debt expenses on receivables are charged if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Management has determined that as of June 30, 2016 no allowance was necessary.

**Fixed assets** - Fixed assets are recorded at cost. Donated fixed assets are recorded at fair value as of the date received. Items with a cost of \$500 or more and an estimated useful life greater than one year are capitalized. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Building	5 - 39 years
Building improvements	5 - 39 years
Equipment	3 - 10 years

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Unrestricted net assets* - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. In addition, resources that are set aside for board-designated purposes are unrestricted.

*Temporarily and permanently restricted net assets* - Temporarily restricted net assets are those whose use by the School has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the School in perpetuity.

*Contributions* - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*In-kind contributions* - In-kind contributions are recorded at their estimated fair values and are reflected in the financial statements as revenue and an equal amount of expense. In 2016, the School received \$51,671 of donated legal fees.

*Governmental services* - Revenue from government services is recognized when reimbursable expenses are incurred under the requirements of the respective programs. Revenues from government agencies are subject to audit by the agencies.

*Functional allocation of expenses* - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Measure of operations* - The School includes in its measure of operations all revenues and expenses that are an integral part of its program and supporting activities and excludes nonoperating investment income and comprehensive campaign contributions from its measure of operations.

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Fair Value Measurements***

*Fair Value Measurements* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at June 30, 2016 as compared to those used at June 30, 2015.

***Mutual funds (including money market mutual funds)*** - Valued at the net asset value ("NAV") of shares held at year end and are deemed to be actively traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The assets at fair value as of June 30, 2016 and 2015 are set forth by level within the fair value hierarchy in Note 3.

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Uncertainty in income taxes* - The School has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2013 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through November 28, 2016, which is the date the financial statements were available to be issued.

*Summarized financial information* - The financial statements include certain prior-year summarized comparative information in total but not by net asset class and functional expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**NOTE 3 - INVESTMENTS**

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
	<u>Level 1</u>	<u>Level 1</u>
Assets		
Mutual funds - money market	\$ 1,884,063	\$ 1,927,703
Mutual funds - equity funds	202,683	220,491
Mutual funds - bond funds	<u>6,353</u>	<u>6,188</u>
	<u>\$ 2,093,099</u>	<u>\$ 2,154,382</u>

Investment income (loss) consists of:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 3,444	\$ 867
Gain (loss) on investments	<u>(14,180)</u>	<u>17,347</u>
	(10,736)	18,214
Less advisory fees	<u>(1,274)</u>	<u>(469)</u>
	<u>\$ (12,010)</u>	<u>\$ 17,745</u>

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 3 - INVESTMENTS (continued)**

Investment income is segregated into two components: operating (spending rate), which is based on approximately 5% of the portfolio's balance over the previous five years, and the balance (either excess or deficit) is reflected as nonoperating.

	<u>2016</u>	<u>2015</u>
Operating	\$ 95,000	\$ 95,000
Nonoperating	<u>(107,010)</u>	<u>(77,255)</u>
	\$ <u>(12,010)</u>	\$ <u>17,745</u>

**NOTE 4 - FIXED ASSETS**

Fixed assets consist of the following at June 30, 2016:

Land	\$ 123,920
Building	760,838
Building improvements	2,193,984
Equipment	<u>258,658</u>
	3,337,400
Less accumulated depreciation	<u>(1,582,106)</u>
Net book value	\$ <u>1,755,294</u>

In 2016, \$1,285,243 of fully depreciated fixed assets were disposed of.

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Day trips	\$ 15,970	\$ 27,413
English and Humanities		5,000
Garden/environment program	275	499
Graduate program	25,454	140,844
Harvest Time nutrition program	5,632	5,856
Music program		12,790
Senior class trip	1,947	3,534
Social worker	12,410	35,788
Summer school	24,469	30,521
For periods after June 30		22,576
Vital Funds	<u>25,000</u>	
Total	<u>\$ 111,157</u>	<u>\$ 284,821</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors:

	<u>2016</u>	<u>2015</u>
Day trips	\$ 11,443	\$ 8,685
English and Humanities	5,000	
Garden/environment program	224	1,146
Graduate program	140,844	120,137
Harvest Time nutrition program	224	157
Music program	12,790	47,890
Recess supervision		44,000
Senior class trip	1,587	2,740
Social worker	35,788	73,089
Summer school	65,359	58,565
Passage of time	22,576	
Vital Funds		<u>25,000</u>
Total	<u>\$ 295,835</u>	<u>\$ 381,409</u>

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 - COMPREHENSIVE CAMPAIGN CONTRIBUTIONS**

During fiscal year 2010, the School began The Campaign for Changing Lives (the "Campaign"). A comprehensive fundraising initiative, the Campaign's objective is to raise funds for: the acquisition and renovation of an adjacent piece of real estate and the accompanying growth of the student body from the neighborhood; the enhancement and growth of academic and recreational programming and associated costs; and the replenishment and further growth of the endowment.

Balance - beginning of year	\$ 1,343,574
Loan to SACS	(192,199)
Loan to operations	(157,731)
Repayment of prior year loans	<u>389,675</u>
Balance - end of year	<u>\$ 1,383,319</u>

**NOTE 7 - ENDOWMENT FUNDS**

***General***

Board-designated endowment net assets of \$83,202 and \$143,440 as of June 30, 2016 and 2015, respectively, are available to be spent at the discretion of the Board of Trustees. Permanently restricted net assets consist of four funds subject to donor-imposed stipulations. The investment income generated is available for the following purposes:

	<u>2016</u>	<u>2015</u>
Graduate program	\$ 181,658	\$ 181,658
Operation of the School	<u>1,740,873</u>	<u>1,740,873</u>
Total	<u>\$ 1,922,531</u>	<u>\$ 1,922,531</u>

As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.



**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7 - ENDOWMENT FUNDS (continued)**

**Interpretation of Relevant Law**

The Board of Trustees of the School adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The School is governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7%. As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

**Return Objectives, Strategies Employed and Spending Policy**

The objective of the School is to maintain the principal endowment funds at the original amount designated by the donor while generating income for the School’s programs. The investment policy to achieve this objective is to invest in low-risk securities. Investment income earned in relation to the endowment funds is recorded as temporarily restricted income and released from restriction upon expenditure for the program for which the endowment fund was established.

**Funds with Deficiencies**

The School does not have any funds with deficiencies.

**Endowment Net Asset Composition by Type of Fund as of June 30, 2016**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds		\$ 1,922,531	\$ 1,922,531
Board-designated endowment funds	\$ 83,202		83,202
Total	<u>\$ 83,202</u>	<u>\$ 1,922,531</u>	<u>\$ 2,005,733</u>

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7 - ENDOWMENT FUNDS (continued)**

**Changes in Endowment Net Assets for the Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>143,440</u>	\$ <u>37,274</u>	\$ <u>1,922,531</u>	\$ <u>2,103,245</u>
Investment return				
Interest and dividends	2,340	330		2,670
Gain on investments	<u>(2,416)</u>	<u>(2,766)</u>		<u>(5,182)</u>
Total investment return	<u>(76)</u>	<u>(2,436)</u>		<u>(2,512)</u>
Appropriation of endowment assets for expenditure	<u>(60,162)</u>	<u>(34,838)</u>		<u>(95,000)</u>
Endowment net assets, end of year	\$ <u>83,202</u>	\$ <u>-</u>	\$ <u>1,922,531</u>	\$ <u>2,005,733</u>

**NOTE 8 - OPERATING LEASES**

In May 2015, the School entered into a lease for space located on Willis Avenue in Bronx, NY, to house SACS. The lease was for 15 months and terminated on July 31, 2016. Rent expense in 2016, including charges for maintenance, was \$210,000.

In January 2016, the School entered into a 10 year operating lease for space located on Jackson Avenue in Bronx, NY, to house SACS (Note 1). Had all the required repairs and permits been obtained by July 1, 2016 the lease would have commenced. As a result of the work not being substantially completed, in May 2016, the School entered into a one year operating lease in the amount of \$396,000, terminating on June 30, 2017, for space located on 138<sup>th</sup> Street in Bronx, NY, which the School is subletting to SACS. There was no penalty to the School for changing locations and the Jackson Avenue lease is set to commence on July 1, 2017.

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 8 - OPERATING LEASES (continued)**

The future minimum commitments under these leases are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	
2017	\$ 413,500
2018	326,000
2019	453,000
2020	580,000
2021	594,500
Thereafter	<u>3,930,422</u>
	<u>\$ 6,297,422</u>

In addition, the School sublets the leased space to SACS. The School charged SACS \$277,500 for rent in 2016. The lease terms expire on June 30, 2017. Minimum future rentals on noncancelable operating leases are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	
2017	\$ <u>452,334</u>

**NOTE 9 - CONCENTRATIONS**

Financial instruments which potentially subject the School to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

**NOTE 10 - PENSION**

The School participates in the Storefront Academy Harlem 403(b) Thrift Plan. Discretionary contributions are determined by the Board of Trustees. The School did not make a discretionary contribution to the plan for the year ended June 30, 2016.

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**STOREFRONT ACADEMY HARLEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 11 - CONTINGENCIES**

**Litigation**

The School is party to litigation for which the ultimate outcome cannot be determined at this time. Accordingly, no loss provision has been made in the financial statements.