

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

Independent Auditor's Report and Financial Statements

June 30, 2021 and 2020



**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**June 30, 2021 and 2020**

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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 statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated October 28, 2021, 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 28, 2021

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Statements of Financial Position**  
**June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 928,635	\$ 1,543,162
Contributions and government grants receivable	758,406	457,726
Prepaid expenses and other assets	<u>55,247</u>	<u>96,714</u>
Total current assets	1,742,288	2,097,602
<b>Noncurrent Assets</b>		
Restricted cash	125,130	75,109
Property and equipment, net	<u>876,767</u>	<u>585,681</u>
Total assets	<u><u>\$ 2,744,185</u></u>	<u><u>\$ 2,758,392</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 76,497	\$ 159,965
Accrued salaries and related liabilities	471,882	456,061
Notes payable	406,222	999,470
Legal settlement	-	183,030
Deferred revenue	<u>106,443</u>	<u>17,122</u>
Total current liabilities	1,061,044	1,815,648
<b>Noncurrent Liabilities</b>		
Deferred rent expense	397,453	341,929
Notes payable	<u>-</u>	<u>602,574</u>
Total liabilities	1,458,497	2,760,151
<b>Net Assets (Deficit) Without Donor Restrictions</b>	<u>1,285,688</u>	<u>(1,759)</u>
Total liabilities and net assets	<u><u>\$ 2,744,185</u></u>	<u><u>\$ 2,758,392</u></u>

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Statements of Activities**  
**Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Revenues and Other Support</b>		
Per-pupil operating revenue - resident student enrollment	\$ 6,125,482	\$ 6,031,218
Per-pupil operating revenue - students with disabilities	683,850	577,529
New York City Department of Education (NYCDOE) rental assistance revenue	<u>1,075,001</u>	<u>955,539</u>
Total state and local per-pupil operating revenues	7,884,333	7,564,286
Government grants and contracts – federal	1,180,797	496,698
Government grants and contracts – state	-	76,901
Contributions	85,593	151,295
Special events	\$ 240	\$ 133,174
Less direct costs of special event	<u>-</u>	<u>(25,793)</u>
Interest	21	31
Forgiveness of loan	1,087,214	-
Other revenues	<u>-</u>	<u>41,756</u>
Total operating revenues and other support	<u>10,238,198</u>	<u>8,438,348</u>
<b>Expenses</b>		
Program services		
General education	5,229,942	4,829,314
Special education	<u>1,757,355</u>	<u>1,229,857</u>
Total program services	6,987,297	6,059,171
Supporting services		
Management and general	<u>1,963,454</u>	<u>1,830,462</u>
Total expenses	<u>8,950,751</u>	<u>7,889,633</u>
<b>Change in Net Assets</b>	1,287,447	548,715
<b>Net Assets (Deficit)</b>		
<b>Without Donor Restrictions, Beginning of Year</b>	<u>(1,759)</u>	<u>(550,474)</u>
<b>Net Assets (Deficit)</b>		
<b>Without Donor Restrictions, End of Year</b>	<u>\$ 1,285,688</u>	<u>\$ (1,759)</u>

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2021**

	** No. of Positions	Program Services			Supporting Services Management and General	Total
		General Education	Special Education	Total		
Personnel service costs						
Administrative personnel	25	\$ 820,767	\$ 168,285	\$ 989,052	\$ 901,384	\$ 1,890,436
Instructional personnel	55	2,283,046	1,013,058	3,296,104	-	3,296,104
Non-instructional personnel	10	-	-	-	462,057	462,057
Total personnel service costs	<u>90</u>	3,103,813	1,181,343	4,285,156	1,363,441	5,648,597
Payroll taxes and employee benefits		548,951	208,936	757,887	241,143	999,030
Legal fees		-	-	-	26,565	26,565
Audit fees		-	-	-	23,790	23,790
Professional fees		-	17,941	17,941	136,017	153,958
Repairs and maintenance		126,886	37,938	164,824	16,576	181,400
Curriculum and classroom		61,539	12,618	74,157	-	74,157
Student services		9,366	1,920	11,286	-	11,286
Food services		7,260	1,489	8,749	-	8,749
Staff development		22,558	6,745	29,303	2,947	32,250
Equipment and furnishings		6,874	2,055	8,929	898	9,827
Office expense		40,972	12,250	53,222	31,966	85,188
Building, land rent and lease		895,735	183,656	1,079,391	56,810	1,136,201
Utilities		18,666	3,827	22,493	1,184	23,677
Information technology		161,280	34,550	195,830	10,818	206,648
Marketing and recruiting		40,993	10,301	51,294	2,636	53,930
Insurance		42,416	12,541	54,957	5,345	60,302
Interest		-	-	-	30,666	30,666
Other expenses		-	-	-	3,606	3,606
Depreciation		142,633	29,245	171,878	9,046	180,924
Total expenses reported by function on the statement of activities		<u>\$ 5,229,942</u>	<u>\$ 1,757,355</u>	<u>\$ 6,987,297</u>	<u>\$ 1,963,454</u>	<u>\$ 8,950,751</u>

\*\* Supplemental information

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2020**

	** 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	16	\$ 464,829	\$ 84,148	\$ 548,977	\$ 885,418	\$ -	\$ 1,434,395
Instructional personnel	52	2,317,404	701,666	3,019,070	-	-	3,019,070
Non-instructional personnel	10	-	-	-	417,488	-	417,488
Total personnel service costs	<u>78</u>	<u>2,782,233</u>	<u>785,814</u>	<u>3,568,047</u>	<u>1,302,906</u>	<u>-</u>	<u>4,870,953</u>
Payroll taxes and employee benefits		471,830	134,318	606,148	225,439	-	831,587
Legal fees		-	-	-	17,168	-	17,168
Audit fees		-	-	-	19,190	-	19,190
Professional fees		-	10,119	10,119	129,781	-	139,900
Repairs and maintenance		87,045	19,400	106,445	13,889	-	120,334
Curriculum and classroom		59,916	11,206	71,122	-	-	71,122
Student services		18,570	3,076	21,646	-	-	21,646
Food services		123,963	21,239	145,202	-	-	145,202
Staff development		16,824	3,855	20,679	3,107	-	23,786
Equipment and furnishings		8,105	1,849	9,954	1,465	-	11,419
Office expense		33,281	7,596	40,877	12,996	-	53,873
Building, land rent and lease		908,016	169,691	1,077,707	56,721	-	1,134,428
Utilities		15,663	3,190	18,853	992	-	19,845
Information technology		125,186	22,785	147,971	7,688	-	155,659
Marketing and recruiting		32,280	7,712	39,992	3,151	-	43,143
Insurance		32,743	7,881	40,624	7,402	-	48,026
Interest		-	-	-	19,984	-	19,984
Other expenses		288	60	348	1,560	-	1,908
Depreciation		113,371	20,066	133,437	7,023	-	140,460
Fundraising events		-	-	-	-	25,793	25,793
Total expenses		<u>4,829,314</u>	<u>1,229,857</u>	<u>6,059,171</u>	<u>1,830,462</u>	<u>25,793</u>	<u>7,915,426</u>
Less expenses deducted directly from revenues on the statement of activities							
Direct costs of special event		-	-	-	-	(25,793)	(25,793)
Total expenses reported by function on the statement of activities		<u>\$ 4,829,314</u>	<u>\$ 1,229,857</u>	<u>\$ 6,059,171</u>	<u>\$ 1,830,462</u>	<u>\$ -</u>	<u>\$ 7,889,633</u>

\*\* Supplemental information



**Storefront Academy Charter School**  
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**Statements of Cash Flows**  
**Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Operating Activities</b>		
Change in net assets	\$ 1,287,447	\$ 548,715
Items not requiring (providing) operating cash flows		
Depreciation	180,924	140,460
Gain on forgiveness of loan	(1,087,214)	-
Noncash interest expense	11,392	-
Changes in		
Contributions and government grants receivable	(300,680)	(420,964)
Prepaid expenses and other assets	41,467	(73,657)
Due from Storefront Academy Harlem	-	24,055
Accounts payable and accrued expenses	(83,468)	40,062
Accrued salaries and related liabilities	15,821	243,140
Due to Department of Education	89,321	(51,683)
Deferred rent expense	55,524	57,894
Net cash provided by operating activities	<u>210,534</u>	<u>508,022</u>
<b>Investing Activities</b>		
Purchase of property and equipment	<u>(472,010)</u>	<u>(347,275)</u>
Net cash used in investing activities	<u>(472,010)</u>	<u>(347,275)</u>
<b>Financing Activities</b>		
Payments made on long-term legal settlement	(183,030)	(54,000)
Payments on note payable	(120,000)	(122,275)
Proceeds from the issuance of loan payable	<u>-</u>	<u>1,075,822</u>
Net cash provided by (used in) financing activities	<u>(303,030)</u>	<u>899,547</u>
<b>Change in Cash and Restricted Cash</b>	(564,506)	1,060,294
<b>Cash and Restricted Cash, Beginning of Year</b>	<u>1,618,271</u>	<u>557,977</u>
<b>Cash and Restricted Cash, End of Year</b>	<u><u>\$ 1,053,765</u></u>	<u><u>\$ 1,618,271</u></u>
<b>Cash and Restricted Cash Consist of:</b>		
Cash	\$ 928,635	\$ 1,543,162
Restricted Cash	<u>125,130</u>	<u>75,109</u>
	<u><u>\$ 1,053,765</u></u>	<u><u>\$ 1,618,271</u></u>
<b>Supplemental Cash Flows Information</b>		
Cash paid for interest	\$ 19,274	\$ 19,984

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**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. On July 31, 2020, the School's charter was renewed by the New York State Board of Regents through July 31, 2023.

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 years 2021 and 2020, the School operated classes for approximately 380 and 375 full-time equivalent general instruction students, respectively, of which 50 and 43 were special education students, respectively.

On February 11, 2020, the Board of Regents of the University of the State of New York amended the charter agreement permitting an additional school to be opened by the School. Storefront Academy Charter School Harlem (SACSH) operates under the same management and board of trustees as the School. During fiscal years 2021 and 2020, SACSH operated classes for approximately 62 and 40 full-time equivalent general instruction students, respectively, of which 14 and 9 were special education students, respectively. SACSH was issued a charter which expires on July 31, 2024.

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

The School went fully remote in fiscal year 2020-2021 as a result of the COVID-19 pandemic. The School was able to maintain attendance and enrollment levels near the same levels that existed prior to the pandemic.

***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.

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

***Cash and Restricted Cash***

The School considers all liquid investments with original maturities of three months or less to be cash equivalents. As of June 30, 2021 and 2020, cash equivalents consisted primarily of money market accounts. Deposit accounts restricted externally by regulators are considered to be restricted cash.

As of June 30, 2021, the School's cash accounts exceeded federally insured limits by approximately \$850,000.

***Cash Reserves***

The School maintains cash in an account, pursuant to its Charter Agreements, to pay off expenses in the event of dissolution of the School.

***Grants and Contracts Receivable***

Revenues from government grants and contracts to which the School is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors, which are not based on student enrollment, and are recorded when related expenditures are incurred by the School. Receivables are recorded when the revenue is earned. Bad debt is charged if the 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. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. As of June 30, 2021 and 2020, the School had no allowance for doubtful accounts.

***Property and Equipment***

Property and equipment acquisitions over \$1,000 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

# Storefront Academy Charter School

## dba Storefront Academy Charter School South Bronx

### Notes to Financial Statements

June 30, 2021 and 2020

#### ***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 years ended June 30, 2021 and 2020.

#### ***Net Assets***

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

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

As of June 30, 2021 and 2020, all net assets are without donor restrictions and are available to be used for operations.

#### ***State and Local Per-Pupil Revenue***

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.

#### ***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:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<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

**Storefront Academy Charter School**  
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**Notes to Financial Statements**  
**June 30, 2021 and 2020**

Nature of the Gift	Value Recognized
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 statements 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 the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue without donor restrictions.

All contributions receivable as of June 30, 2021 and 2020 were without donor restrictions.

As of June 30, 2021 and 2020, \$106,443 and \$17,122 of proceeds received from conditional contributions were recorded as a liability as the conditions had not been met, respectively.

### **Government Grants**

Support funded by grants is recognized as the School meets the conditions prescribed by the grant agreement, 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 2021 and 2020, all leases were classified as operating leases.

# Storefront Academy Charter School dba Storefront Academy Charter School South Bronx

## Notes to Financial Statements

June 30, 2021 and 2020

### **Income Taxes**

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

### **Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program services, management and general and fundraising categories based on time spent, and staffing allocations to the main functional areas of the school: general education, special education and management/general.

### **Note 2: Conditional Grants and Contributions**

A portion of the School's revenue is derived from cost-reimbursable grants, which are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the School has incurred expenditures in compliance with specific grant provisions. The School has the following conditional grants as of June 30, 2021:

<b>Funder</b>	<b>Purpose</b>	<b>Expiration Date</b>	<b>Grant Amount</b>	<b>Amount Recognized or Forfeited</b>	<b>Amount Outstanding</b>
New York State Education Department	Charter School Planning and Implementation Grant	6/30/2022	<u>\$ 1,250,000</u>	<u>\$ 678,654</u>	<u>\$ 571,346</u>

### **Note 3: Property and Equipment**

Property and equipment as of June 30 consist of:

	<b>2021</b>	<b>2020</b>
Leasehold improvement	\$ 282,926	\$ 278,126
Furniture and fixtures	362,370	270,690
Equipment	390,698	328,108
Computers	<u>265,484</u>	<u>96,544</u>
	1,301,478	973,468
Accumulated depreciation	<u>(568,711)</u>	<u>(387,787)</u>
	<u>\$ 732,767</u>	<u>\$ 585,681</u>

**Storefront Academy Charter School**  
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**June 30, 2021 and 2020**

The School entered into a construction contract of approximately \$240,000 with a vendor for the renovation of the commercial unit and community facility unit as mentioned in *Note 5*. As of June 30, 2021, the School had open commitments totaling approximately \$96,000 with this vendor.

**Note 4: 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 its lease. The interest rate recorded for imputed interest is 3 percent. During the year 2021, the School completed payment of the full liability.

**Note 5: Operating Leases**

In March 2018, the School began leasing space located at Jackson Avenue. In May 2019, the lease was amended to include additional space. The lease is set to expire June 30, 2028. Rent expense for the years ended June 30, 2021 and 2020 were \$813,523 and \$811,270, respectively. Minimum amounts to be paid under the terms of the lease are as follows:

2022	\$ 801,189
2023	821,220
2024	841,749
2025	862,797
2026	884,373
Thereafter	<u>1,829,844</u>
Total	<u>\$ 6,041,172</u>

Additionally, in May 2019, the School agreed to lease additional space, commencing July 2019. The lease was amended in December 2019 to adjust the lease payments. The lease is set to expire June 30, 2022. Minimum amounts to be paid under the terms of the lease are as follows:

2022	<u>\$ 350,000</u>
	<u>\$ 350,000</u>

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

During the fiscal year 2021, the School signed two leases for a commercial unit and community facility unit located at Pontiac Place, Bronx, NY. The leases commenced on August 1, 2021. Minimum amounts to be paid under the terms of the lease are as follows:

2022	\$ 132,792
2023	151,508
2024	159,075
2025	167,034
2026	175,389
Thereafter	<u>14,674</u>
	<u>\$ 800,472</u>

**Note 6: Notes Payable**

In February 2018, SAH 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.

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. The School is making monthly repayments of principal and interest amount of approximately \$11,600. The note is set to mature with a balloon payment in February 2021, but the School continued making monthly payments as the payment terms are renegotiated. The amount outstanding as of June 30, 2021 and 2020 was \$406,222 and \$526,222, respectively.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act*. On April 7, 2020, the School received a loan in the amount of \$1,075,822 pursuant to the Paycheck Protection Program. The School has elected to account for the funding as a loan in accordance with ASC Topic 470, *Debt*. The loan was due two years from the date of the first disbursement under the loan and has a fixed interest rate of 1 percent per year. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized. On May 28, 2021, the Small Business Administration forgave the balance of the loan.

Annual maturities as of June 30, 2021 are:

2022	<u>\$ 406,222</u>
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**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**Note 7: 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 years ended June 30, 2021 and 2020.

**Note 8: 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:

***Grants and Contracts Subject to Audits***

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

***Operating Revenue***

The School obtained approximately 77 percent and 90 percent of its operating revenues through its charters from New York State for the years ended June 30, 2021 and 2020, respectively.

**Note 9: Liquidity and Availability**

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of June 30, 2021, comprise the following:

	<b>2021</b>	<b>2020</b>
Current financial assets at year end		
Cash	\$ 928,635	\$ 1,518,162
Contributions and government grants receivable	<u>758,406</u>	<u>457,726</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,687,041</u>	<u>\$ 1,975,888</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 cash equivalents. During the years ended June 30, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**Note 10: Subsequent Events**

Subsequent events have been evaluated through October 28, 2021, which is the date the financial statements were available to be issued.

**Note 11: Future Changes in Accounting Principles**

***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 annual periods beginning after December 15, 2021. 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.

## **Supplementary Schedules**

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Schedule of Activities by Location**  
**Year Ended June 30, 2021**

	<u>Harlem</u>	<u>South Bronx</u>	<u>Total</u>
<b>Revenues and Other Support</b>			
Per-pupil operating revenue - resident student enrollment	\$ 1,001,706	\$ 5,123,776	\$ 6,125,482
Per-pupil operating revenue - students with disabilities	177,449	506,401	683,850
New York City Department of Education (NYCDOE) rental assistance revenue	<u>297,699</u>	<u>777,302</u>	<u>1,075,001</u>
Total state and local per-pupil operating revenues	1,476,854	6,407,479	7,884,333
Government grants and contracts - federal	569,930	610,867	1,180,797
Contributions	-	85,593	85,593
Special events	\$ -	\$ 240	\$ 240
Less direct costs of special event	<u>-</u>	<u>-</u>	<u>-</u>
Interest	-	21	21
Forgiveness of PPP loan	<u>253,547</u>	<u>833,667</u>	<u>1,087,214</u>
Total operating revenues and other support	<u>2,300,331</u>	<u>7,937,867</u>	<u>10,238,198</u>
<b>Expenses</b>			
Program services			
General education	973,943	4,255,999	5,229,942
Special education	<u>479,521</u>	<u>1,277,834</u>	<u>1,757,355</u>
Total program services	1,453,464	5,533,833	6,987,297
Supporting services			
Management and general	<u>661,006</u>	<u>1,302,448</u>	<u>1,963,454</u>
Total expenses	<u>2,114,470</u>	<u>6,836,281</u>	<u>8,950,751</u>
<b>Change in Net Assets</b>	185,861	1,101,586	1,287,447
<b>Net Assets (Deficit) Without Donor Restrictions, Beginning of Year</b>	<u>(667,992)</u>	<u>666,233</u>	<u>(1,759)</u>
<b>Net Assets (Deficit) Without Donor Restrictions, End of Year</b>	<u><u>\$ (482,131)</u></u>	<u><u>\$ 1,767,819</u></u>	<u><u>\$ 1,285,688</u></u>

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Schedule of Functional Expenses – Harlem**  
**Year Ended June 30, 2021**

	No. of Positions	Program Services			Supporting Services	Total
		General Education	Special Education	Total	Management and General	
Personnel service costs						
Administrative personnel	7	\$ 156,064	\$ 47,353	\$ 203,417	\$ 314,487	\$ 517,904
Instructional personnel	9	315,262	239,122	554,384	-	554,384
Non-instructional personnel	3	-	-	-	146,806	146,806
Total personnel service costs	<u>19</u>	471,326	286,475	757,801	461,293	1,219,094
Payroll taxes and employee benefits		87,432	53,142	140,574	85,570	226,144
Audit fees		-	-	-	11,297	11,297
Professional fees		-	4,586	4,586	38,683	43,269
Repairs and maintenance		32,477	14,222	46,699	13,823	60,522
Curriculum and classroom		14,561	4,420	18,981	-	18,981
Student services		1,951	591	2,542	-	2,542
Food services		2,005	608	2,613	-	2,613
Staff development		5,317	2,328	7,645	2,264	9,909
Equipment and furnishings		1,701	745	2,446	724	3,170
Office expense		7,917	3,467	11,384	13,329	24,713
Building, land rent and lease		235,184	71,361	306,545	16,133	322,678
Utilities		8,766	2,660	11,426	603	12,029
Information technology		39,453	12,232	51,685	3,258	54,943
Marketing and recruiting		19,513	6,513	26,026	1,875	27,901
Insurance		16,388	7,083	23,471	6,680	30,151
Interest		-	-	-	3,418	3,418
Depreciation		29,952	9,088	39,040	2,056	41,096
Total expenses reported by function on the statement of activities		<u>\$ 973,943</u>	<u>\$ 479,521</u>	<u>\$ 1,453,464</u>	<u>\$ 661,006</u>	<u>\$ 2,114,470</u>

**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Schedule of Functional Expenses – South Bronx**  
**Year Ended June 30, 2021**

	No. of Positions	Program Services			Supporting Services	Total
		General Education	Special Education	Total	Management and General	
Personnel service costs						
Administrative personnel	18	\$ 688,760	\$ 107,631	\$ 796,391	\$ 576,141	\$ 1,372,532
Instructional personnel	46	1,970,704	771,016	2,741,720	-	2,741,720
Non-instructional personnel	7	-	-	-	315,251	315,251
Total personnel service costs	<u>71</u>	2,659,464	878,647	3,538,111	891,392	4,429,503
Payroll taxes and employee benefits		458,616	156,049	614,665	158,221	772,886
Legal fees		-	-	-	26,565	26,565
Audit fees		-	-	-	12,493	12,493
Professional fees		-	13,356	13,356	97,333	110,689
Repairs and maintenance		89,858	24,406	114,264	6,614	120,878
Curriculum and classroom		46,464	8,712	55,176	-	55,176
Student services		7,363	1,381	8,744	-	8,744
Food services		5,167	969	6,136	-	6,136
Staff development		16,608	4,511	21,119	1,222	22,341
Equipment and furnishings		4,949	1,344	6,293	364	6,657
Office expense		32,576	8,848	41,424	19,051	60,475
Building, land rent and lease		650,813	122,034	772,847	40,676	813,523
Utilities		9,319	1,747	11,066	582	11,648
Information technology		120,555	23,789	144,344	7,361	151,705
Marketing and recruiting		19,882	5,018	24,900	1,129	26,029
Insurance		22,503	6,048	28,551	1,600	30,151
Interest		-	-	-	27,248	27,248
Other expenses		-	-	-	3,606	3,606
Depreciation		111,862	20,975	132,837	6,991	139,828
Total expenses reported by function on the statement of activities		<u>\$ 4,255,999</u>	<u>\$ 1,277,834</u>	<u>\$ 5,533,833</u>	<u>\$ 1,302,448</u>	<u>\$ 6,836,281</u>

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2021.

***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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's internal control. Accordingly, we do not express an opinion on the effectiveness of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2021-001, that we consider to be a significant deficiency.

## ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's Response to Finding***

Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's response to the finding 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 28, 2021



**Storefront Academy Charter School**  
**dba Storefront Academy Charter School South Bronx**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2021**

**Findings Required to be Reported by *Government Auditing Standards***

Reference Number	Finding
<b>2021-001</b>	<p><b><i>Segregation of Duties</i></b></p> <p><b>Criteria or Specific Requirement</b></p> <p>The accounting functions should be properly segregated to maintain proper internal controls over financial reporting.</p> <p><b>Condition</b></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><b>Effect</b></p> <p>Administrative staff has the ability to misappropriate assets with limited supervision.</p> <p><b>Cause</b></p> <p>The School has two accountants performing multiple tasks.</p> <p><b>Recommendation</b></p> <p>We recommended that the School establish compensating controls in each area described above.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b></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, 2021**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
<b>2020-001</b>	<p><b><i>Internal Controls Over Credit Card Use</i></b></p> <p>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>During 2021, the School partially resolved this matter. The deficiency is not considered a significant deficiency for the year ended 2021.</p>	Unresolved (not significant in 2021)
<b>2020-002</b>	<p><b><i>Segregation of Duties</i></b></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>	Unresolved (2021-001)
<b>2020-003</b>	<p><b><i>Escrow Account</i></b></p> <p>The School did not make the required \$25,000 deposit for SACSH.</p>	Resolved

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

As part of our audits of the financial statements and compliance of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx (the School) as of and for the year ended June 30, 2021, 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 and U.S. Office of Management and Budget (OMB) Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**

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 and U.S. Office of Management and Budget (OMB) Uniform Guidance is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on a major federal program occurred. 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 contract 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.

Audits of the financial statements and compliance do not relieve management or those charged with governance of their responsibilities. Our contract 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 area involves significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Receivables, including the potential requirement of an allowance

### ***Significant Unusual Transactions***

No matters are reportable.

### ***Financial Statement Disclosures***

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

- Liquidity and availability

### ***Audit Adjustments***

No matters are reportable.

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

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)
- Management letter dated October 28, 2021
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

### **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, 2021, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the

purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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 matter that we consider to be a significant deficiency.

## **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 the 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.

### **Bonuses to Employees**

The School gave a few employees bonuses in 2021 through accounts payable. All compensation payments must be processed through payroll. We recommend that the School inform their payroll provider of these payments and make sure it is included in the employees' W-2 at year end, as well as amend Form 941.

### **FASB Issues New Lease Accounting Standard**

The Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases* (Topic 842), the long-awaited new standard on lease accounting. FASB has issued various ASUs since that date related to Topic 842 as well seeking to clarify guidance and provide more transition relief in certain areas.

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.

### **Effective Dates**

The School is required to adopt Topic 842 for the fiscal year ended June 30, 2023.

### **Implementation**

The delay by FASB of the effective date of the new leases standard Accounting Standards Codification (ASC) 842 by one year for private companies and most non-profit organizations is welcome relief as many of these entities continue to work on their implementations of the new revenue standard ASC 606.

However, there are certain lease implementation items to get moving on sooner rather than later:

1. Educate yourself and key stakeholders about ASC 842.
  - a. Check out [bkd.com](http://bkd.com) for BKD Thoughtware resources, including articles and webinars related to the new standard and the related implementation efforts.
2. Early decision points:
  - a. Transition method
  - b. Practical expedients and accounting policy elections
3. Accumulate the population of potential leases.
4. Communicate with lenders – expected impact of ASC 842 on existing debt covenants.
5. Systems analysis – Do you need lease software? If so, vendor selection takes time.
6. Start developing the processes and controls necessary for effective implementation of ASC 842 as well as the ongoing accounting requirements.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the School, 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 28, 2021

*Representation of:*

Storefront Academy Charter School  
DBA Storefront Academy Charter School South Bronx  
609 Jackson Avenue  
Bronx, NY 10455

*Provided to:*

**BKD, LLP**  
Certified Public Accountants  
1155 Avenue of the Americas, Suite 1200  
New York, NY 10036

The undersigned (“We”) are providing this letter in connection with BKD’s audits of our financial statements as of and for the years ended June 30, 2021 and 2020.

Our representations are current and effective as of the date of BKD’s report: October 28, 2021.

Our engagement with BKD is based on our contract for services dated: August 10, 2021.

### **Our Responsibility and Consideration of Material Matters**

We confirm that we are responsible for the fair presentation of the financial statements subject to BKD’s report 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.

### **Confirmation of Matters Specific to the Subject Matter of BKD’s Report**

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 contract, 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:
  - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
  - b. Internal control to prevent and detect fraud.



## Storefront Academy Charter School DBA Storefront Academy Charter School South Bronx

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3. 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.
4. 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 or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
  - e. All significant contracts and grants.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
  - a. Misappropriation of assets.
  - b. Misrepresented or misstated assets, liabilities, or net assets.
7. 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.
8. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
  - a. Management or employees who have significant roles in internal control, or
  - b. Others, where activities of others could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, customers, regulators, suppliers, or others.
10. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.
11. 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 entity may deal if the entity 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 entity.

12. 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 entity is contingently liable.

13. 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.

14. We have no reason to believe the entity 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.

15. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.

16. 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.

17. Except as disclosed in the financial statements, the entity 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.
18. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date that 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 that 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.
19. 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.
20. 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.
21. With respect to any nonattest services you have provided us during the year, including assisting with the preparation of the financial statements and preparation of information 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 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.
22. 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.
23. We are an entity exempt from income tax under Section 501(c) 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.
24. We acknowledge the entity 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 entity

does not meet the definition of a “public entity” under generally accepted accounting principles for certain accounting standards.

25. As an entity subject to *Government Auditing Standards*:

- a. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements.
- b. 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.
- c. 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.
- d. 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.
- e. We have a process to track the status of audit findings and recommendations.
- f. 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.
- g. 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*.

26. With regard to supplementary information:

- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
- b. We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.
- c. The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
- e. If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended

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users of the supplementary information no later than the date such information and the related auditor's report are issued.

27. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the entity'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.
28. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Entities are potentially facing declines in the fair values of investments and other assets, declines in the volume of business/contributions, constraints on liquidity, difficulty obtaining financing, etc. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts, notes/contributions receivable, etc., that could negatively impact the entity's ability to meet debt covenants or maintain sufficient liquidity.

We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the entity's financial statements. Further, management and governance are solely responsible for all aspects of managing the entity, including questioning the quality and valuation of investments and other assets, reviewing allowances for uncollectible amounts, evaluating capital needs and liquidity plans, etc.

29. With regards to our loan obtained under the "first draw" Paycheck Protection Program (created under the CARES Act of 2020 and extended under the *2021 Consolidated Appropriations Act*) (PPP-1 or First Draw), dated June 18, 2020, we represent the following:
- a. At the time of the loan application, the current economic uncertainty that existed made this loan request necessary to support the entity's ongoing operations. In making this assessment, we considered the nature of our business activities at the time of the loan application and our ability to access other sources of liquidity that were (could have been) sufficient to support ongoing operations.
  - b. The entity, when considered together with all its affiliates (using the affiliate determinations required by the PPP-1), had fewer than 500 employees at the date of the loan application.
    - i. In addition, we have determined the number of full-time equivalent employees on payroll (at the time of the application) in a manner that is consistent with the clarification guidance released by the Small Business Administration.
  - c. We have not received more than one loan under the First Draw Paycheck Protection Program. In addition, we have confirmed with our affiliated entities (using the affiliate determinations required by the PPP-1) that the total of any PPP loans received by us and by those affiliates under the First Draw program does not exceed \$20 million in the aggregate.
  - d. We have not used the proceeds from the PPP-1 loan for expenditures that were covered by other funding sources, *i.e.*, government grants or contracts.
  - e. The funds received under this loan have only been used:

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- i. To retain workers and maintain payroll;
    - ii. To make mortgage interest, lease, and utility payments;
    - iii. To pay for worker protection costs related to COVID-19;
  - f. We have elected to recognize the loan proceeds as debt under ASC 470.
  - g. We have not spent more than 40 percent of the loan amount for nonpayroll costs.
30. We have responded fully and truthfully to all your inquiries.

DocuSigned by:  
  
B2886E5D0BA94E8

Dr. Nicole Garcia, CEO  
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DocuSigned by:  
  
47CE4ED3EDE0448...

Stuart Wolf, Director of Finance  
Swolf@cstorefront.org

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

In planning and performing 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, 2021, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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 matter that we consider to be a significant deficiency.

### **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.

The 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 the supporting documentation and sign off on them as appropriate, indicating review.

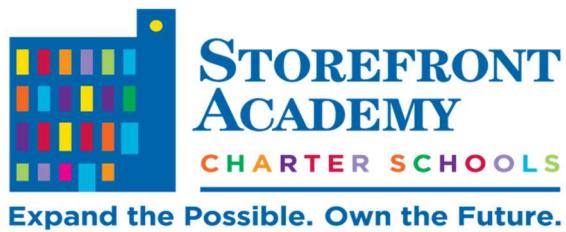
We observed matters that we consider to be deficiencies that we communicated to management orally.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the School, 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 28, 2021





## **Corrective Action Plan**

### **2021-001 Segregation of Duties**

Storefront Academy Charter Schools are currently actively looking to expand our fiscal department to allow for proper segregation of duties