

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Independent Auditor's Report and Financial Statements (Revised)
June 30, 2020



Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
June 30, 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 statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in *Note 1*, the financial statements have been revised to correct a misstatement. Our opinion is not modified with respect to this matter.

As described in *Note 2* to the financial statements, in 2020, Storefront Academy Charter School dba Storefront Academy Charter School South Bronx adopted Accounting Standards Updated (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information within the statement of functional expenses and the 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 December 14, 2020, 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
December 14, 2020

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Statement of Financial Position
June 30, 2020

Assets

Current Assets

Cash	\$ 1,543,162
Contributions and government grants receivable	457,726
Prepaid expenses and other assets	<u>96,714</u>

Total current assets 2,097,602

Restricted cash	75,109
Property and equipment, net	<u>585,681</u>

Total assets \$ 2,758,392

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued expenses	\$ 159,965
Accrued salaries and related liabilities	456,061
Notes payable	999,470
Legal settlement	183,030
Deferred revenue	<u>17,122</u>

Total current liabilities 1,815,648

Noncurrent Liabilities

Deferred rent expense	341,929
Notes payable	<u>602,574</u>

Total liabilities 2,760,151

Net Assets (Deficit) Without Donor Restrictions (1,759)

Total liabilities and net assets \$ 2,758,392

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

**Statement of Activities
Year Ended June 30, 2020**

Revenues and Other Support

Per-pupil operating revenue - resident student enrollment		\$ 6,031,218
Per-pupil operating revenue - students with disabilities		577,529
New York City Department of Education (NYCDOE) rental assistance revenue		<u>955,539</u>

Total state and local per-pupil operating revenues 7,564,286

Government grants and contracts – federal		496,698
Government grants and contracts – state		76,901
Contributions		151,295
Special events	\$ 133,174	
Less direct costs of special event	<u>(25,793)</u>	107,381
Interest		31
Other revenues		<u>41,756</u>

Total operating revenues and other support 8,438,348

Expenses

Program services		
General education		4,829,314
Special education		<u>1,229,857</u>

Total program services 6,059,171

Supporting services		
Management and general		<u>1,830,462</u>

Total expenses 7,889,633

Change in Net Assets 548,715

Net Assets (Deficit) Without Donor Restrictions, Beginning of Year (550,474)

Net Assets (Deficit) Without Donor Restrictions, End of Year \$ (1,759)

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

	**	Program Services			Supporting	Direct Costs of Special Event	Total
	No. of Positions	General Education	Special Education	Total	Management and General		
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
dba Storefront Academy Charter School South Bronx
Statement of Cash Flows (Revised)
Year Ended June 30, 2020

Operating Activities	
Change in net assets	\$ 548,715
Items not requiring (providing) operating cash flows	
Depreciation	140,460
Changes in	
Contributions and government grants receivable	(420,964)
Prepaid expenses and other assets	(73,657)
Due from Storefront Academy Harlem	24,055
Accounts payable and accrued expenses	40,062
Accrued salaries and related liabilities	243,140
Due to Department of Education	(51,683)
Deferred rent expense	57,894
	<u>508,022</u>
Net cash provided by operating activities	<u>508,022</u>
Investing Activities	
Purchase of property and equipment	<u>(347,275)</u>
	<u>(347,275)</u>
Net cash used in investing activities	<u>(347,275)</u>
Financing Activities	
Payments made on long-term legal settlement	(54,000)
Payments on note payable	(122,275)
Proceeds from the issuance of loan payable	1,075,822
	<u>899,547</u>
Net cash provided by financing activities	<u>899,547</u>
Change in Cash and Restricted Cash	1,060,294
Cash and Restricted Cash, Beginning of Year	<u>557,977</u>
Cash and Restricted Cash, End of Year	<u><u>\$ 1,618,271</u></u>
Cash and Restricted Cash Consist of:	
Cash	\$ 1,543,162
Restricted Cash	75,109
	<u><u>\$ 1,618,271</u></u>
Supplemental Cash Flows Information	
Cash paid for interest	\$ 19,984

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Notes to Financial Statements
June 30, 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 year 2020, the School operated classes for approximately 375 full-time equivalent general instruction students, of which 43 were special education students.

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 year 2020, SACSH operated classes for approximately 50 full-time equivalent general instruction students, of which 9 were special education students. SACSH was issued a charter which expires on July 31, 2024.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Restricted Cash

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

At June 30, 2020, the School's cash accounts exceeded federally insured limits by approximately \$1,368,000.

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

Cash Reserves

The School maintains cash in an account, pursuant to its Charter Agreement, 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, 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

Long-Lived Asset Impairment

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

No asset impairment was recognized during the year ended June 30, 2020.

Net Assets

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

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

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

At June 30, 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:

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

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

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

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

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, 2020 were without donor restrictions.

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

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 2020, all leases were classified as operating leases.

Income Taxes

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

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. The statement of functional expenses presents 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.

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

Revision

The statement of cash flows has been revised for an immaterial error to include depreciation of \$140,460, which increased net cash provided by operating activities, and a corresponding increase in purchase of property and equipment, which increased net cash used in investing activities.

Note 2: Change in Accounting Principle

ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

Effective July 1, 2019, the School adopted Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 applies to all grants and contributions received and clarifies the accounting guidance applicable for grant accounting.

Historically, there was diversity in practice for accounting for grants. Some grantees considered grants to be an exchange transaction, whereas others reported grants as donor-restricted contributions. ASU 2018-08 provides guidance that unless the grantor is directly receiving value in the same amount as the services provided (an exchange transaction), the grant should be considered a contribution. In addition, if the grantor incorporates barriers into the contract and has a right of return, the transaction is considered to be a conditional contribution. Under the accounting guidance, conditional contributions are not recorded as revenue until the condition has been met.

In implementing ASU 2018-08, the School was required to evaluate all grant agreements. Adoption of the ASU did not cause a change in the timing and classification of grant revenues.

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

In 2020, the School changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash when reconciling beginning and end-of-period balances on the statement of cash flows. As a result, beginning cash and cash equivalents was increased by \$75,078, for cash held in escrow.

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

Note 3: 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, 2020:

Funder	Purpose	Expiration Date	Grant Amount	Amount Recognized or Forfeited	Amount Outstanding
New York State Education Department	Charter School Planning and Implementation Grant	6/30/2022	\$ 1,250,000	\$ 200,000	\$ 1,050,000

Note 4: Property and Equipment

Property and equipment at June 30, 2020 consist of:

Leasehold improvement	\$ 278,126
Furniture and fixtures	270,690
Equipment	328,108
Computers	<u>96,544</u>
	973,468
Accumulated depreciation	<u>(387,787)</u>
	<u>\$ 585,681</u>

Note 5: 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. Minimum amounts to be paid under the terms of the settlement as of June 30, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	<u>\$ 183,030</u>	<u>\$ 9,565</u>	<u>\$ 192,595</u>
	<u>\$ 183,030</u>	<u>\$ 9,565</u>	<u>\$ 192,595</u>

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

Note 6: Academic and Services Agreement

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

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

2021	\$ 777,303
2022	801,189
2023	821,220
2024	841,749
2025	862,797
Thereafter	<u>2,714,217</u>
Total	<u>\$ 6,818,475</u>

Additionally, in May 2019, the School agreed to a lease for SACSH with payment terms that began 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:

2021	\$ 300,000
2022	<u>350,000</u>
	<u>\$ 650,000</u>

Note 7: 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.

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

In May 2019, the loan was amended for a second time to combine the amounts advanced of \$650,000 and the accrued interest outstanding as of that date of \$18,380, into one new loan payable of \$668,380. Interest will be charged at 3 percent on amounts outstanding. 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. The amount outstanding at June 30, 2020 was \$526,222.

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 ACS Topic 470, *Debt*. The loan is due two years from the date of the first disbursement under the loan and has a fixed interest rate of 1 percent per year. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. 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.

Annual maturities as of June 30, 2020 are:

2021	\$ 999,470
2022	<u>602,574</u>
	<u>\$ 1,602,044</u>

Note 8: Pension and Other Postretirement Benefit Plans

Employees of the School are eligible to participate in the Storefront Academy Harlem 403(b) Thrift Plan administered by SAH. The Board of Trustees annually determines the amount, if any, of the School’s contributions to the plan. The School did not make a discretionary contribution to the plan for the year ended June 30, 2020.

Note 9: Significant Estimates and Concentrations

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

Operating Revenue

The School obtained approximately 90 percent of its operating revenues through its charter from New York State for the year ended June 30, 2020.

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

Note 10: 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, 2020, comprise the following:

Current financial assets at year end	
Cash	\$ 1,518,162
Contributions and government grants receivable	<u>457,726</u>
Financial assets available to meet cash needs for general expenditures within one year	<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 and cash equivalents. Although the School does not intend to spend from its net assets other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts could be made available if necessary. During the year ended June 30, 2020, the level of liquidity and reserves was managed within the policy requirements.

Note 11: Subsequent Events

Subsequent events have been evaluated through December 14, 2020, which is the date the financial statements were available to be issued.

Note 12: 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, 2020

	Harlem	South Bronx	Total
Revenues and Other Support			
Per-pupil operating revenue - resident student enrollment	\$ 656,094	\$ 5,375,124	\$ 6,031,218
Per-pupil operating revenue - students with disabilities	154,773	422,756	577,529
New York City Department of Education (NYCDOE) rental assistance revenue	198,645	756,894	955,539
Total state and local per-pupil operating revenues	1,009,512	6,554,774	7,564,286
Government grants and contracts – federal	264,903	231,795	496,698
Government grants and contracts – state	7,817	69,084	76,901
Contributions	20,000	131,295	151,295
Special events	\$ -	\$ 133,174	\$ 133,174
Less direct costs of special event	-	(25,793)	107,381
Interest	-	31	31
Other revenues	-	41,756	41,756
Total operating revenues and other support	1,302,232	7,136,116	8,438,348
Expenses			
Program services			
General education	991,619	3,837,695	4,829,314
Special education	346,300	883,557	1,229,857
Total program services	1,337,919	4,721,252	6,059,171
Supporting services			
Management and general	632,305	1,198,157	1,830,462
Total expenses	1,970,224	5,919,409	7,889,633
Change in Net Assets	(667,992)	1,216,707	548,715
Net Assets (Deficit) Without Donor Restrictions, Beginning of Year	-	(550,474)	(550,474)
Net Assets (Deficit) Without Donor Restrictions, End of Year	\$ (667,992)	\$ 666,233	\$ (1,759)

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Functional Expenses – Harlem
Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services	Direct Costs of Special Event	Total
		General Education	Special Education	Total	Management and General		
Personnel service costs							
Administrative personnel	5	\$ 102,716	\$ 30,495	\$ 133,211	\$ 306,570	\$ -	\$ 439,781
Instructional personnel	10	406,725	162,638	569,363	-	-	569,363
Non-instructional personnel	3	-	-	-	141,305	-	141,305
Total personnel service costs	<u>18</u>	509,441	193,133	702,574	447,875	-	1,150,449
Payroll taxes and employee benefits		95,309	36,132	131,441	83,791	-	215,232
Legal fees		-	-	-	9,371	-	9,371
Audit fees		-	-	-	-	-	-
Professional fees		-	2,847	2,847	50,357	-	53,204
Repairs and maintenance		15,926	4,510	20,436	6,429	-	26,865
Curriculum and classroom		15,660	4,649	20,309	-	-	20,309
Student services		2,187	649	2,836	-	-	2,836
Food services		19,307	5,732	25,039	-	-	25,039
Staff development		4,497	1,274	5,771	1,815	-	7,586
Equipment and furnishings		2,060	583	2,643	832	-	3,475
Office expense		8,518	2,412	10,930	3,439	-	14,369
Building, land rent and lease		236,370	70,175	306,545	16,134	-	322,679
Utilities		5,845	1,735	7,580	399	-	7,979
Information technology		27,167	8,058	35,225	1,919	-	37,144
Marketing and recruiting		12,979	3,807	16,786	1,359	-	18,145
Insurance		14,382	4,081	18,463	5,550	-	24,013
Interest		-	-	-	-	-	-
Other expenses		-	-	-	1,535	-	1,535
Depreciation		21,971	6,523	28,494	1,500	-	29,994
Total expenses		991,619	346,300	1,337,919	632,305	-	1,970,224
Less expenses deducted directly from revenues on the statement of activities							
Direct costs of special event		-	-	-	-	-	-
Total expenses reported by function on the statement of activities		<u>\$ 991,619</u>	<u>\$ 346,300</u>	<u>\$ 1,337,919</u>	<u>\$ 632,305</u>	<u>\$ -</u>	<u>\$ 1,970,224</u>

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

	No. of Positions	Program Services			Supporting Services	Direct Costs	Total
		General Education	Special Education	Total	Management and General	of Special Event	
Personnel service costs							
Administrative personnel	11	\$ 362,113	\$ 53,653	\$ 415,766	\$ 578,848	\$ -	\$ 994,614
Instructional personnel	42	1,910,679	539,028	2,449,707	-	-	2,449,707
Non-instructional personnel	7	-	-	-	276,183	-	276,183
Total personnel service costs	<u>60</u>	<u>2,272,792</u>	<u>592,681</u>	<u>2,865,473</u>	<u>855,031</u>		<u>3,720,504</u>
Payroll taxes and employee benefits		376,521	98,186	474,707	141,648	-	616,355
Legal fees		-	-	-	7,797	-	7,797
Audit fees		-	-	-	19,190	-	19,190
Professional fees		-	7,272	7,272	79,424	-	86,696
Repairs and maintenance		71,119	14,890	86,009	7,460	-	93,469
Curriculum and classroom		44,256	6,557	50,813	-	-	50,813
Student services		16,383	2,427	18,810	-	-	18,810
Food services		104,656	15,507	120,163	-	-	120,163
Staff development		12,327	2,581	14,908	1,292	-	16,200
Equipment and furnishings		6,045	1,266	7,311	633	-	7,944
Office expense		24,763	5,184	29,947	9,557	-	39,504
Building, land rent and lease		671,646	99,516	771,162	40,587	-	811,749
Utilities		9,818	1,455	11,273	593	-	11,866
Information technology		98,019	14,727	112,746	5,769	-	118,515
Marketing and recruiting		19,301	3,905	23,206	1,792	-	24,998
Insurance		18,361	3,800	22,161	1,852	-	24,013
Interest		-	-	-	19,984	-	19,984
Other expenses		288	60	348	25	-	373
Depreciation		91,400	13,543	104,943	5,523	-	110,466
Fundraising events		-	-	-	-	25,793	25,793
Total expenses		<u>3,837,695</u>	<u>883,557</u>	<u>4,721,252</u>	<u>1,198,157</u>	<u>25,793</u>	<u>5,945,202</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>\$ 3,837,695</u>	<u>\$ 883,557</u>	<u>\$ 4,721,252</u>	<u>\$ 1,198,157</u>	<u>\$ -</u>	<u>\$ 5,919,409</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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Storefront Academy Charter School dba Storefront Academy Charter School South Bronx, which comprise the statement of financial position as of June 30, 2020, 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 December 14, 2020. Our report contains an “Emphasis of Matter” paragraph regarding a change in accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Storefront Academy Charter School dba Storefront Academy Charter School South Bronx’s internal control over financial reporting (internal control) 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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001, and 2020-002, that we consider to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2020-003.

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

Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Storefront Academy Charter School dba Storefront Academy Charter School South Bronx's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

New York, New York
December 14, 2020

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Findings and Responses
Year Ended June 30, 2020

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2020-001	<p><i>Internal Controls Over Credit Card Use</i></p> <p>Criteria or Specific Requirement</p> <p>The School should establish policies surrounding the use of credit cards to minimize the ability for abuse.</p> <p>Condition</p> <p>Currently the School is not requiring authorization be obtained prior to the credit card being used. In addition, not all the required receipts from credit card purchases are being provided with explanations for business purpose.</p> <p>Effect</p> <p>Anyone provided access to the credit card has the ability to misappropriate the School's assets.</p> <p>Cause</p> <p>The School's policy requires credit card backup for charges above \$25. However, there were charges above this amount which had no receipt backup provided.</p> <p>Recommendation</p> <p>We recommend that procedures be created and implemented documenting approval of the business expense prior to utilizing the credit cards, with the receipt being attached after the credit card is used.</p> <p>Views of Responsible Officials and Planned Corrective Actions</p> <p>The School will be implementing procedures surrounding credit card use as per the recommendation.</p>

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2020

Reference Number	Finding
2020-002	<i>Segregation of Duties</i> Criteria or Specific Requirement The accounting functions should be properly segregated to maintain proper internal controls over financial reporting. Condition The current staff size of the School does not always allow for the proper segregation of duties related to cash disbursements and payroll. Effect Administrative staff has the ability to misappropriate assets with limited supervision. Cause The School has two accountants performing multiple tasks. Recommendation We recommended that the School establish compensating controls in each area described above. Views of Responsible Officials and Planned Corrective Actions 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.

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2020

Reference Number	Finding
2020-003	<i>Escrow Account</i> Criteria or Specific Requirement Per Section 8.9 of the School’s charter agreement, the School is required to maintain an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur. The School is required to deposit \$25,000 each of the first 3 years until there is \$75,000 in the account. Condition At June 30, 2020, the School did not make the required \$25,000 deposit for SACSH. Effect The School was not in compliance with a requirement of the New York State Education Department. Cause Management oversight of the requirement. Recommendation We recommend that the School fund the escrow account at the required amount. Views of Responsible Officials and Planned Corrective Actions Agree with the finding; subsequent to year-end, the School properly funded the escrow account.

Storefront Academy Charter School
dba Storefront Academy Charter School South Bronx
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

Reference Number	Summary of Finding	Status
2019-001	<p><i>Internal Controls Over Credit Card Use</i></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 2019, the School has implemented a policy that there is Board review of all credit card purchases on a monthly basis. In addition, there is a policy requiring backup documentation for all charges over \$25.</p>	Partially Resolved (2020-001)
2019-002	<p><i>Segregation of Duties</i></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 (2020-002)