

AMBER CHARTER SCHOOLS AND AFFILIATES

NEW YORK, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2019

(With Comparative Totals for 2018)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Consolidated Statement of Financial Position	5
Consolidated Statement of Activities and Changes in Net Assets	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	10
 <u>OTHER FINANCIAL INFORMATION</u>	
Independent Auditor's Report on Other Financial Information	22
Consolidating Statement of Financial Position	23
Consolidating Statement of Activities and Changes in Net Assets	24
Statement of Functional Expenses by Charter:	
Amber East Harlem	25
Amber Kingsbridge	26

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Amber Charter Schools and Affiliates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Amber Charter Schools and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Amber Charter Schools and Affiliates as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We previously audited Amber Charter Schools and Affiliates' June 30, 2018 financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated October 24, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2019 on our consideration of Amber Charter Schools and Affiliates' 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 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 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 Amber Charter Schools and Affiliates' internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 22, 2019

AMBER CHARTER SCHOOLS AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019
(With Comparative Totals for 2018)

<u>ASSETS</u>	June 30,	
	2019	2018
<u>CURRENT ASSETS</u>		
Cash	\$ 7,387,027	\$ 4,593,499
Grants and contracts receivable	463,251	514,931
Other receivables	31,402	331,608
Prepaid expenses	93,596	24,618
TOTAL CURRENT ASSETS	7,975,276	5,464,656
<u>PROPERTY AND EQUIPMENT, net</u>	3,963,703	4,022,746
<u>OTHER ASSETS</u>		
Security deposits	72,878	73,608
Cash in escrow	152,046	-
	224,924	73,608
TOTAL ASSETS	\$ 12,163,903	\$ 9,561,010
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Current maturities of long-term debt	\$ 70,081	\$ 65,983
Accounts payable and accrued expenses	217,328	203,747
Accrued payroll and benefits	1,155,562	1,075,598
Deferred revenue	7,653	8,353
TOTAL CURRENT LIABILITIES	1,450,624	1,353,681
<u>OTHER LIABILITIES</u>		
Long-term debt, net of unamortized debt issuance costs of \$75,859 and \$80,194, respectively	1,967,023	2,032,769
Deferred lease liability	548,460	301,178
	2,515,483	2,333,947
TOTAL LIABILITIES	3,966,107	3,687,628
<u>NET ASSETS, without donor restrictions</u>	8,197,796	5,873,382
TOTAL LIABILITIES AND NET ASSETS	\$ 12,163,903	\$ 9,561,010

The accompanying notes are an integral part of the consolidated financial statements.

AMBER CHARTER SCHOOLS AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	Year ended June 30,	
	2019	2018
Revenue, gains and other support:		
Public school district:		
Resident student enrollment	\$ 13,611,908	\$ 11,171,646
Students with disabilities	10,164	112,212
Grants and contracts:		
State and local	66,846	73,128
Federal - Title and IDEA	576,420	535,276
Federal - other	19,872	47,714
Food service / Child nutrition program	426,096	399,604
NYC DOE Rental Assistance	931,350	825,914
After school program	154,008	158,973
TOTAL REVENUE, GAINS AND OTHER SUPPORT	15,796,664	13,324,467
Expenses:		
Program:		
Regular education	9,685,406	10,148,478
Special education	1,864,252	515,804
TOTAL PROGRAM EXPENSES	11,549,658	10,664,282
Management and general	2,298,170	2,134,531
Fundraising and special events	117,386	44,784
TOTAL OPERATING EXPENSES	13,965,214	12,843,597
SURPLUS FROM SCHOOL OPERATIONS	1,831,450	480,870
Support and other revenue:		
Contributions		
Foundations	11,800	6,436
Individuals	25,178	11,358
Corporations	44,848	1,229
In-kind	49,541	60,000
Fundraising	313,509	169,582
Investment income	18,284	12,125
Rental income	-	11,400
Miscellaneous income	29,804	5,453
TOTAL SUPPORT AND OTHER REVENUE	492,964	277,583
CHANGE IN NET ASSETS	2,324,414	758,453
Net assets without donor restrictions at beginning of year	5,873,382	5,114,929
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	\$ 8,197,796	\$ 5,873,382

The accompanying notes are an integral part of the consolidated financial statements.

AMBER CHARTER SCHOOLS AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	Year ended June 30,								
	2019					2018			
	No. of Positions	Program Services			Supporting Services			Total	Total
Regular Education		Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total			
Personnel Services Costs:									
Administrative staff personnel	24	\$ 289,133	\$ 44,504	\$ 333,637	\$ 1,334,549	\$ -	\$ 1,334,549	\$ 1,668,186	\$ 1,438,786
Instructional personnel	81	3,816,429	876,748	4,693,177	-	-	-	4,693,177	4,125,689
Non-instructional personnel	6	734,324	110,488	844,812	-	-	-	844,812	878,706
Total salaries and staff	111	4,839,886	1,031,740	5,871,626	1,334,549	-	1,334,549	7,206,175	6,443,181
Fringe benefits and payroll taxes		1,378,220	293,893	1,672,113	380,032	-	380,032	2,052,145	1,954,145
Retirement		159,763	34,592	194,355	44,064	-	44,064	238,419	219,116
Professional development		117,703	18,349	136,052	-	-	-	136,052	110,903
Legal services		-	-	-	12,104	-	12,104	12,104	15,732
Accounting / Audit		-	-	-	36,115	-	36,115	36,115	33,106
Professional services		755,121	150,484	905,605	146,352	58,841	205,193	1,110,798	728,142
Student and staff recruitment		46,510	9,560	56,070	9,065	-	9,065	65,135	49,357
Supplies / Materials		258,904	41,837	300,741	-	-	-	300,741	199,326
Office expenses		20,115	3,113	23,228	92,914	1,332	94,246	117,474	129,039
Food service		367,531	37,661	405,192	-	-	-	405,192	395,674
Student services		50,669	5,328	55,997	-	-	-	55,997	46,041
Insurance		67,888	14,976	82,864	19,464	-	19,464	102,328	80,797
Building and Land Rent / Lease		968,310	105,814	1,074,124	119,347	-	119,347	1,193,471	1,311,473
Utilities		130,849	26,982	157,831	36,061	-	36,061	193,892	211,965
Non-capitalized equipment and furnishings		2,860	465	3,325	370	-	370	3,695	1,622
Technology		41,935	6,642	48,577	5,397	-	5,397	53,974	101,218
Repairs and maintenance		87,264	15,173	102,437	11,382	-	11,382	113,819	78,355
Depreciation and amortization		197,879	32,586	230,465	25,607	-	25,607	256,072	420,419
Interest expense		101,494	19,229	120,723	13,414	-	13,414	134,137	137,995
Other		92,505	15,828	108,333	12,033	57,113	69,146	177,479	175,991
		<u>\$ 9,685,406</u>	<u>\$ 1,864,252</u>	<u>\$ 11,549,658</u>	<u>\$ 2,298,270</u>	<u>\$ 117,286</u>	<u>\$ 2,415,556</u>	<u>\$ 13,965,214</u>	<u>\$ 12,843,597</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMBER CHARTER SCHOOLS AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	<u>Year ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,324,414	\$ 758,453
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	256,072	420,419
Amortization of debt issuance costs included in interest expense	4,335	4,335
Write-off of loan closing costs	-	72,145
Bad debt expense	53,703	13,270
Changes in certain assets and liabilities affecting operations:		
Grants and contracts receivable	51,680	1,305
Other receivables	246,503	(43,412)
Prepaid expenses	(68,978)	(1,016)
Security deposits	730	26,840
Accounts payable and accrued expenses	13,581	(161,520)
Accrued payroll and benefits	79,964	142,925
Deferred revenue	(700)	(1,942)
Deferred lease liability	<u>247,282</u>	<u>301,178</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	3,208,586	1,532,980
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Additions to property and equipment	(197,029)	(244,099)
Change in cash in escrow	<u>(152,046)</u>	<u>-</u>
NET CASH USED FOR INVESTING ACTIVITIES	(349,075)	(244,099)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayment of long-term debt	<u>(65,983)</u>	<u>(62,126)</u>
NET CASH USED FOR FINANCING ACTIVITIES	<u>(65,983)</u>	<u>(62,126)</u>
NET INCREASE IN CASH	2,793,528	1,226,755
Cash at beginning of year	<u>4,593,499</u>	<u>3,366,744</u>
CASH AT END OF YEAR	<u>\$ 7,387,027</u>	<u>\$ 4,593,499</u>

AMBER CHARTER SCHOOLS AND AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>	<u>Year ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Interest paid	<u>\$ 129,802</u>	<u>\$ 133,660</u>

The accompanying notes are an integral part of the consolidated financial statements.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization

Amber Charter Schools is an education corporation that has authority to operate the Charter Schools as described below. Founded by Community Association of Progressive Dominicans/Asociación Comunal de Dominicanos Progresistas, Amber was the first charter school in New York City created by a community-based organization. Amber's mission is to provide its students with an academically rigorous and well-rounded education, along with strong character development, that will enable them to prosper in future endeavors. To fulfill this mission, Amber provides students with the ability to demonstrate proficiency and/or distinction in all New York State Learning Standards. Amber's funding is primarily from per-student funding provided by New York City; additionally, Amber receives government grants and contracts and private contributions. In June 2019, Amber Charter School changed its name to Amber Charter Schools.

Amber East Harlem ("East Harlem") operates in the borough of Manhattan, New York. On April 4, 2000, the Board of Regents of the University of the State of New York granted East Harlem a provisional charter valid for a term of five years and renewable upon expiration. East Harlem obtained a renewal through June 30, 2025.

Amber Kingsbridge ("Kingsbridge") operates in the borough of Bronx, New York. In August 2014, the Board of Regents of the University of the State of New York granted Kingsbridge a provisional charter, which expires July 31, 2020.

On June 6, 2019, the SUNY Board of Trustees' Charter School Committee approved the initial five year charter for Amber III Charter School which will open in July 2020. The charter term will expire July 31, 2025.

Amber Schools Foundation, Inc. ("Foundation") was organized under the laws of the State of New York as a not-for-profit under subparagraph (c)(3) of Section 501 of the Not-For-Profit Corporation law in March 2014. The Foundation is established to support the functions of, and to assist in carrying out the educational and charitable purposes of, Amber East Harlem, Amber Kingsbridge, and Amber III.

Amber Charter Schools is the sole member of 652 West 187th Street, LLC ("652 West"), 3120 Corlear Avenue, LLC ("3120 Corlear") and 220 East 106th Street, LLC ("220 East") (collectively, the "LLC's"), all limited liability companies established under the laws of the state of New York. 652 West and 3120 Corlear were established to hold lease agreements with unrelated parties for the property in which Amber Kingsbridge operates. Such properties were subsequently sublet to Amber Kingsbridge. 220 East is a co-borrower with Amber East Harlem on the mortgage payable and line of credit arrangement with Raza Development Fund, Inc. ("Raza").

Principles of consolidation

The accompanying consolidated financial statements include the accounts of East Harlem, Kingsbridge, Foundation, 652 West, 3120 Corlear and 220 East, (collectively referred to as the "Organization"). Amber Charter Schools maintains an economic interest and control in the Foundation through common board membership and the ability to elect the Foundation's board members. The only activity in the LLC's during 2019 and 2018 was rental income from Amber Charter Schools and rent expense to an unrelated party as disclosed in Note C. All intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Classification of net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the accounts of the Organization are maintained in accordance with the principles of accounting for not-for-profit organizations. This is the procedure by which resources are classified for reporting purposes into net asset groups, established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by net asset group.

The assets, liabilities, activities, and net assets are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees has discretionary control to use these in carrying on operations in accordance with the guidelines established by the Organization.

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization had no net assets with donor restrictions at June 30, 2019 or 2018.

Revenue and support recognition

Revenue from state and local governments resulting from the Organization's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Organization when qualifying expenditures are incurred and billable or requirements of the grant are met.

Contributions are recognized as revenue in the year the pledge is received and documented.

Contributions

Contributions are recorded as with or without donor restrictions depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as without donor restrictions.

All donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Cash

Cash balances are maintained at certain financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Organization maintains cash in an escrow account in accordance with the terms of its charter agreements. The amount in escrow was \$152,046 at June 30, 2019.

Grants and contracts receivable and other receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2019 or 2018.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to thirty-five years. Leasehold improvements are amortized over the lesser of the lease term or useful life.

Deferred lease liability

The Organization leases a facility. The lease contains pre-determined fixed escalation of the base rent. In accordance with GAAP, the Organization recognizes the related rent expense on a straight-line basis over the lease term and records the difference between the recognized rental expense and the amounts payable under the lease as a deferred lease liability. The amount of additional rent expense recognized in excess of the amounts paid under the lease was approximately \$247,300 and \$301,000 for the years ended June 30, 2019 and June 30, 2018, respectively.

Deferred revenue

The Organization records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Tax exempt status

Amber Charter Schools and the Foundation are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, are exempt from federal and state taxes on income. Amber Charter Schools and the Foundation file Form 990 tax returns in the U.S. federal jurisdiction. In addition, the Foundation files a CHAR 500 in New York State. The LLCs are single member LLCs and are disregarded for tax purposes. The tax returns for the years ended June 30, 2016 through June 30, 2019 are still subject to potential audit by the IRS. Management of Amber Charter Schools and the Foundation believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Contributed services

The Organization receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. In addition, the Organization received transportation services, metro cards, special education services and physical, occupational, and speech therapy for students from the local district. The Organization was unable to determine a value for these services.

The Organization received contributed property and equipment which was valued at \$60,000 for the year ended June 30, 2018. The Organization received consulting services valued at \$49,541 to support fundraising for the year ended June 30, 2019. These amounts are included in in-kind revenue in the accompanying consolidated statement of activities and changes in net assets.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution.

Marketing and recruiting costs

The Organization expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$65,100 and \$49,400 for the years ended June 30, 2019 and 2018, respectively.

Use of estimates in the preparation of financial statements

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

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Comparative information for the year ended June 30, 2018

The consolidated financial statements include certain prior year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018 from which the summarized information was derived.

Change in accounting principle

During August 2016 FASB issued Accounting Standards Update No. 2016-14 "*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*". The main provisions of ASU 2016-14 require a Not-For-Profit (NFP) to:

- 1) Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than three classes. That is, an NFP will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

- 2) Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the required three classes as in prior years. An NFP would continue to report the currently required amount of the change in total net assets for the period.
- 3) Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- 4) Provide enhanced disclosures about:
 - a) Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
 - b) Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date.
 - c) Quantitative information, and additional qualitative information, that communicates the availability of an NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by Board of Trustee decisions.
 - d) Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location.
 - e) Method(s) used to allocate costs among program and support functions.

ASU 2016-14 is effective for financial statements beginning after December 15, 2017 and was applied retrospectively except for disclosures regarding liquidity and availability of resources, which are presented only for the current year. There was no effect on total assets or changes in net assets. The Organization has adopted the amendments effective July 1, 2018.

New accounting pronouncements

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Organization is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Organization's financial position or results of operations.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the guidance in this new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. There has been an exposure draft proposed that would delay this ASU from the initial timetable and, if passed, will take effect for fiscal years beginning after December 15, 2020 and for interim periods with fiscal years beginning after December 15, 2021. The Organization is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Organization’s financial position or results of operations.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 22, 2019, which is the date the financial statements are available to be issued except as noted in Notes C, I, and P.

NOTE B: LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization’s main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities of teaching, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a surplus budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Organization’s cash and shows positive cash generated by operations for fiscal year 2019.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

	<u>Amount</u>
Cash	\$ 7,387,027
Grants and contracts receivable and other receivables	<u>494,653</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 7,881,680</u>

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE B: LIQUIDITY AND AVAILABILITY, Cont'd

The Organization has a \$2,000,000 line of credit that could be drawn upon in the event of unanticipated liquidity needs. At June 30, 2019, there were no amounts outstanding on this line.

NOTE C: SCHOOL FACILITIES

The Organization leases the facility for the Kingsbridge location. On April 15, 2016, 652 West entered into a non-cancelable operating lease agreement with an unrelated third party for facility space originally expiring in June 2018. This property was sublet to Kingsbridge. However, Kingsbridge vacated the premises in September 2017, at which time the sublease with 652 West was terminated. In December 2017, 652 West reached a settlement agreement with the landlord and the lease was terminated. Rent expense incurred under this lease was approximately \$76,600 for the year ended June 30, 2018.

In May 2017, 3120 Corlear entered into a 35-year non-cancelable operating lease agreement with an unrelated third party for facility space, commencing in August 2017 and expiring in July 2052. The property was sublet to Kingsbridge in an agreement that commences in August 2017 and expired in July 2019. In July 2019, a new sublease was signed that commenced July 2019 and expires June 2021. This sublease has an option to renew every two years for thirty-five years. Total rental expense under the third party lease was approximately \$1,067,000 and \$978,000 for the years ended June 30, 2019 and 2018, respectively. In conjunction with this facility lease, 3120 Corlear paid a security deposit of \$61,573 which is included in security deposits on the accompanying consolidated statement of financial position at June 30, 2019 and 2018. The remaining \$11,305 and \$12,035 of security deposits at June 30, 2019 and 2018, respectively, represent deposits on electric meters.

Future expected minimum payments of this lease are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 881,700
2021	940,800
2022	972,900
2023	975,300
2024	975,300
Thereafter	<u>31,116,700</u>
	<u>\$ 35,862,700</u>

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30,	
	2019	2018
Land	\$ 335,000	\$ 335,000
Building	4,884,954	4,821,399
Furniture and fixtures	490,555	427,443
Computers and equipment	1,318,890	1,271,879
Software	55,860	55,860
Leasehold improvements	<u>112,145</u>	<u>412,690</u>
	7,197,404	7,324,271
Less accumulated depreciation and amortization	<u>3,233,701</u>	<u>3,301,525</u>
	<u>\$ 3,963,703</u>	<u>\$ 4,022,746</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was approximately \$256,100 and \$420,400, respectively.

NOTE E: LONG-TERM DEBT

Amber Charter Schools had a mortgage payable to a bank dated September 29, 2011, which was collateralized by East Harlem's real estate in the city of New York. The loan was payable in monthly installments of \$17,316, including interest at 7% per annum, with a balloon payment of approximately \$2,235,000 due at maturity on October 1, 2016. In October 2016, East Harlem entered into a loan modification agreement with the bank extending the loan's maturity to December 28, 2016 under the same terms. On December 30, 2016, Amber Charter Schools, with 220 East as a co-borrower, refinanced the mortgage with the bank by entering into an amended and restated loan and security agreement.

Long-term debt is summarized as follows:

	June 30,	
	2019	2018
Note payable, due in monthly installments of \$16,315, including interest at 6.04%, through December 2036. The note is collateralized by real property.	\$ 2,112,963	\$ 2,178,946
Less unamortized debt issuance costs	(75,859)	(80,194)
Less current portion of long-term debt	<u>(70,081)</u>	<u>(65,983)</u>
	<u>\$ 1,967,023</u>	<u>\$ 2,032,769</u>

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE E: LONG-TERM DEBT, Cont'd

Future maturities of long term debt are summarized as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 70,081
2021	74,433
2022	79,055
2023	83,964
2024	89,179
Thereafter	<u>1,716,251</u>
	<u>\$ 2,112,963</u>

NOTE F: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Undesignated net assets	\$ 6,271,197	\$ 3,949,388
Invested in property and equipment, net of related debt	<u>1,926,599</u>	<u>1,923,994</u>
	<u>\$ 8,197,796</u>	<u>\$ 5,873,382</u>

NOTE G: LINE OF CREDIT

Amber Charter Schools also has a secured \$2,000,000 line of credit with a bank with interest at 5.625% per annum, collateralized by the Amber Charter Schools' assets. There was no balance outstanding as of June 30, 2019 and 2018.

Borrowings under the line of credit and note payable described in Note E are subject to a certain financial covenant and reporting requirements. As of June 30, 2019, the Organization was in compliance with all covenants.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE H: OPERATING RESERVE

During the year ended June 30, 2013, Amber Charter Schools' board of trustees adopted an operating reserve policy to ensure the stability of Amber Charter Schools' mission. The policy requires Amber Charter Schools to establish an operating reserve fund with a minimum of \$250,000. Such funds shall be segregated from Amber Charter Schools' operating cash and shall not be used for normal operations. As of June 30, 2019, Amber Charter Schools had not yet established the operating reserve fund. However, management believes that Amber Charter Schools has adequate liquidity available, and that the segregation and restriction of such funds will not have an adverse effect on the operations of the schools.

NOTE I: OPERATING LEASES AND COMMITMENTS

The Organization leases office equipment under non-cancelable lease agreements, expiring at various dates through September 2032. In September 2019, the Organization signed several additional lease agreements for office equipment.

The future minimum payments on these agreements are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 128,900
2021	135,000
2022	129,200
2023	54,200
2024	39,500
Thereafter	48,300
	<u>\$ 535,100</u>

NOTE J: RETIREMENT PLAN

The Organization sponsors a defined contribution 403(b) plan covering all eligible employees. The Organization contributes a percentage of compensation based on job classification, 4% for administration staff and 3% for instructional staff. Contributions on behalf of union employees are in accordance with the union agreement, which specified a 5% contribution for the years ended June 30, 2019 and 2018. The Organization made contributions of approximately \$238,400 and \$219,000 for the years ended June 30, 2019 and 2018, respectively.

NOTE K: UNION AGREEMENT

At June 30, 2019, the Organization had 111 employees, of which 41 are represented by a union. The union agreement covering these employees expired on August 31, 2018. In March 2018, the Organization entered a collective bargaining agreement with the employee union. This agreement went into effect during September 2018 and expires August 31, 2022.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals for 2018)

NOTE L: CONTINGENCY

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

NOTE M: CONCENTRATIONS

At June 30, 2019 and 2018, approximately 86% and 44%, respectively of grants and contracts receivable are due from New York State relating to certain grants. At June 30, 2018, approximately 49% of grants and contracts receivable are due from the Federal government relating to certain grants.

During the years ended June 30, 2019 and 2018, 86% and 85% respectively of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter Schools' students are located.

NOTE N: RENEWAL PROCESS

Amber Kingsbridge is currently in the process of renewing its charter as granted by the New York State Board of Regents. The Charter currently expires July 31, 2020. The renewal process includes review by the State University of New York Charter Schools Institute (CSI) of various operational and governance aspects, including fiscal health and internal controls, board governance, and academic performance. Amber Kingsbridge has submitted its application for renewal. Upon review of the application and results, CSI will determine if the charter should be renewed and if so, for how long. Successful charter renewals can range from one to five years. At this time, management of Amber Kingsbridge expects the charter to be renewed.

NOTE O: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort.

NOTE P: SUBSEQUENT EVENT

In July 2019, the Organization entered into an agreement with a contractor for renovations to be made at the Kingsbridge location. The expected costs total to approximately \$169,000. Total renovations are expected to be completed during fiscal year ending June 30, 2020.

AMBER CHARTER SCHOOLS AND AFFILIATES

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Amber Charter Schools and Affiliates

We have audited the consolidated financial statements of Amber Charter Schools and Affiliates as of and for the year ended June 30, 2019, and have issued our report thereon dated October 22, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The financial information hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements for the year ended June 30, 2019, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 22, 2019

AMBER CHARTER SCHOOLS

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

<u>ASSETS</u>	Amber Charter Schools			Amber Schools Foundation Inc.	Eliminations	Consolidated Total
	Amber East Harlem	Amber Kingsbridge	Total			
<u>CURRENT ASSETS</u>						
Cash	\$ 4,077,581	\$ 1,149,032	\$ 5,226,613	\$ 2,160,414	\$ -	\$ 7,387,027
Grants and contracts receivable	266,530	196,721	463,251	-	-	463,251
Other receivables	31,061	341	31,402	-	-	31,402
Prepaid expenses	27,940	65,656	93,596	-	-	93,596
Related party receivables (payables)	1,586,479	(28,587)	1,557,892	(1,557,892)	-	-
TOTAL CURRENT ASSETS	5,989,591	1,383,163	7,372,754	602,522	-	7,975,276
<u>PROPERTY AND EQUIPMENT, net</u>	3,618,548	345,155	3,963,703	-	-	3,963,703
<u>OTHER ASSETS</u>						
Security deposits	-	72,878	72,878	-	-	72,878
Cash in escrow	152,046	-	152,046	-	-	152,046
TOTAL ASSETS	\$ 9,760,185	\$ 1,801,196	\$ 11,561,381	\$ 602,522	\$ -	\$ 12,163,903
<u>LIABILITIES AND NET ASSETS</u>						
<u>CURRENT LIABILITIES</u>						
Current maturities of long-term debt	\$ 70,081	\$ -	\$ 70,081	\$ -	\$ -	\$ 70,081
Accounts payable and accrued expenses	133,343	83,985	217,328	-	-	217,328
Accrued payroll and benefits	734,783	420,779	1,155,562	-	-	1,155,562
Deferred revenue	3,061	4,592	7,653	-	-	7,653
TOTAL CURRENT LIABILITIES	941,268	509,356	1,450,624	-	-	1,450,624
<u>OTHER LIABILITIES</u>						
Long-term debt, net of unamortized debt issuance costs of \$75,859	1,967,023	-	1,967,023	-	-	1,967,023
Deferred lease liability	-	548,460	548,460	-	-	548,460
TOTAL LIABILITIES	2,908,291	1,057,816	3,966,107	-	-	3,966,107
<u>NET ASSETS, without donor restrictions</u>	6,851,894	743,380	7,595,274	602,522	-	8,197,796
TOTAL LIABILITIES AND NET ASSETS	\$ 9,760,185	\$ 1,801,196	\$ 11,561,381	\$ 602,522	\$ -	\$ 12,163,903

AMBER CHARTER SCHOOLS

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2019

	Amber Charter Schools			Amber Schools Foundation Inc.	Eliminations	Consolidated Total
	Amber East Harlem	Amber Kingsbridge	Total			
Revenue, gains and other support:						
Public school district:						
Resident student enrollment	\$ 8,125,364	\$ 5,486,544	\$ 13,611,908	\$ -	\$ -	\$ 13,611,908
Students with disabilities	-	10,164	10,164	-	-	10,164
Grants and contracts:						
State and local	41,680	25,166	66,846	-	-	66,846
Federal - Title and IDEA	331,990	244,430	576,420	-	-	576,420
Federal - other	6,372	13,500	19,872	-	-	19,872
Food service / Child nutrition program	289,746	136,350	426,096	-	-	426,096
NYC DOE Rental Assistance	-	931,350	931,350	-	-	931,350
After school program	154,008	-	154,008	-	-	154,008
TOTAL REVENUE, GAINS AND OTHER SUPPORT	8,949,160	6,847,504	15,796,664	-	-	15,796,664
Expenses:						
Program:						
Regular education	5,137,885	4,547,521	9,685,406	-	-	9,685,406
Special education	1,259,038	605,214	1,864,252	-	-	1,864,252
TOTAL PROGRAM EXPENSES	6,396,923	5,152,735	11,549,658	-	-	11,549,658
Management and general	1,273,493	1,023,943	2,297,436	734	-	2,298,170
Fundraising and special events	177	37	214	117,172	-	117,386
TOTAL OPERATING EXPENSES	7,670,593	6,176,715	13,847,308	117,906	-	13,965,214
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	1,278,567	670,789	1,949,356	(117,906)	-	1,831,450
Support and other revenue:						
Contributions						
Foundations	2,800	1,000	3,800	8,000	-	11,800
Individuals	844	-	844	24,334	-	25,178
Corporations	1,564	284	1,848	43,000	-	44,848
In-kind	-	-	-	49,541	-	49,541
Fundraising	-	-	-	313,509	-	313,509
Investment income	-	-	-	18,284	-	18,284
Miscellaneous income	27,899	1,905	29,804	-	-	29,804
TOTAL SUPPORT AND OTHER REVENUE	33,107	3,189	36,296	456,668	-	492,964
CHANGE IN NET ASSETS	1,311,674	673,978	1,985,652	338,762	-	2,324,414
Net assets at beginning of year	5,540,220	69,402	5,609,622	263,760	-	5,873,382
NET ASSETS AT END OF YEAR	\$ 6,851,894	\$ 743,380	\$ 7,595,274	\$ 602,522	\$ -	\$ 8,197,796

AMBER EAST HARLEM

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER

YEAR ENDED JUNE 30, 2019

	<u>No. of Positions</u>	<u>Regular Education</u>	<u>Special Education</u>	<u>Sub-total</u>	<u>Management and general</u>	<u>Fundraising and special events</u>	<u>Sub-total</u>	<u>Total</u>
Personnel Services Costs:								
Administrative staff personnel	13	\$ 160,994	\$ 30,501	\$ 191,495	\$ 765,981	\$ -	\$ 765,981	\$ 957,476
Instructional personnel	50	2,229,893	615,396	2,845,289	-	-	-	2,845,289
Non-instructional personnel	<u>3</u>	<u>377,195</u>	<u>71,462</u>	<u>448,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>448,657</u>
Total salaries and staff	66	2,768,082	717,359	3,485,441	765,981	-	765,981	4,251,422
Fringe benefits and payroll taxes		789,107	204,500	993,607	218,361	-	218,361	1,211,968
Retirement		96,352	24,970	121,322	26,662	-	26,662	147,984
Professional development		68,427	12,964	81,391	-	-	-	81,391
Legal services		-	-	-	12,104	-	12,104	12,104
Accounting / Audit		-	-	-	19,170	-	19,170	19,170
Professional services		460,707	109,016	569,723	86,283	-	86,283	656,006
Student and staff recruitment		30,641	7,407	38,048	6,361	-	6,361	44,409
Supplies / Materials		168,933	32,005	200,938	-	-	-	200,938
Office expenses		11,418	2,163	13,581	54,323	177	54,500	68,081
Food service		198,785	37,661	236,446	-	-	-	236,446
Student services		28,121	5,328	33,449	-	-	-	33,449
Insurance		43,517	11,278	54,795	12,042	-	12,042	66,837
Utilities		66,341	17,193	83,534	18,358	-	18,358	101,892
Non-capitalized equipment and furnishings		1,913	362	2,275	253	-	253	2,528
Technology		25,684	4,866	30,550	3,394	-	3,394	33,944
Repairs and maintenance		70,308	13,320	83,628	9,292	-	9,292	92,920
Depreciation and amortization		136,723	25,903	162,626	18,069	-	18,069	180,695
Interest expense		101,494	19,229	120,723	13,414	-	13,414	134,137
Other		<u>71,332</u>	<u>13,514</u>	<u>84,846</u>	<u>9,426</u>	<u>-</u>	<u>9,426</u>	<u>94,272</u>
		<u>\$ 5,137,885</u>	<u>\$ 1,259,038</u>	<u>\$ 6,396,923</u>	<u>\$ 1,273,493</u>	<u>\$ 177</u>	<u>\$ 1,273,670</u>	<u>\$ 7,670,593</u>

AMBER KINGSBRIDGE

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER

YEAR ENDED JUNE 30, 2019

	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel Services Costs:								
Administrative staff personnel	11	\$ 128,139	\$ 14,003	\$ 142,142	\$ 568,568	\$ -	\$ 568,568	\$ 710,710
Instructional personnel	31	1,586,536	261,352	1,847,888	-	-	-	1,847,888
Non-instructional personnel	3	357,129	39,026	396,155	-	-	-	396,155
Total salaries and staff	45	2,071,804	314,381	2,386,185	568,568	-	568,568	2,954,753
Fringe benefits and payroll taxes		589,113	89,393	678,506	161,671	-	161,671	840,177
Retirement		63,411	9,622	73,033	17,402	-	17,402	90,435
Professional development		49,276	5,385	54,661	-	-	-	54,661
Accounting / Audit		-	-	-	16,845	-	16,845	16,845
Professional services		294,414	41,468	335,882	60,069	-	60,069	395,951
Student and staff recruitment		15,869	2,153	18,022	2,704	-	2,704	20,726
Supplies / Materials		89,971	9,832	99,803	-	-	-	99,803
Office expenses		8,697	950	9,647	38,591	37	38,628	48,275
Food service		168,746	-	168,746	-	-	-	168,746
Student services		22,548	-	22,548	-	-	-	22,548
Insurance		24,371	3,698	28,069	6,688	-	6,688	34,757
Building and Land Rent / Lease		968,310	105,814	1,074,124	119,347	-	119,347	1,193,471
Utilities		64,508	9,789	74,297	17,703	-	17,703	92,000
Non-capitalized equipment and furnishings		947	103	1,050	117	-	117	1,167
Technology		16,251	1,776	18,027	2,003	-	2,003	20,030
Repairs and maintenance		16,956	1,853	18,809	2,090	-	2,090	20,899
Depreciation and amortization		61,156	6,683	67,839	7,538	-	7,538	75,377
Other		21,173	2,314	23,487	2,607	-	2,607	26,094
		\$ 4,547,521	\$ 605,214	\$ 5,152,735	\$ 1,023,943	\$ 37	\$ 1,023,980	\$ 6,176,715

AMBER CHARTER SCHOOLS AND AFFILIATES

NEW YORK, NEW YORK

**SCHEDULES REQUIRED BY GOVERNMENT
AUDITING STANDARDS AND THE UNIFORM
GUIDANCE**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2019



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>SCHEDULES REQUIRED BY GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE</u>	<u>PAGE</u>
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance	5
Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9

INDEPENDENT AUDITOR'S 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

Board of Trustees
Amber Charter Schools and Affiliates

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 consolidated financial statements of Amber Charter Schools and Affiliates which comprise the consolidated statement of financial position as of June 30, 2019 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 22, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Amber Charter Schools and Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Amber Charter Schools and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Amber Charter Schools and Affiliates' 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 Organization's consolidated 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 22, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Amber Charter Schools and Affiliates

Report on Compliance for Each Major Federal Program

We have audited Amber Charter Schools and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Amber Charter Schools and Affiliates' major federal programs for the year ended June 30, 2019. Amber Charter Schools and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Amber Charter Schools and Affiliates' major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Amber Charter Schools and Affiliates' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on Amber Charter Schools and Affiliates' compliance.

Opinion on Each Major Program

In our opinion, Amber Charter Schools and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Amber Charter Schools and Affiliates is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Amber Charter Schools and Affiliates' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Amber Charter Schools and Affiliates' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards in Accordance with the Uniform Guidance

We have audited the consolidated financial statements of Amber Charter Schools and Affiliates as of and for the year ended June 30, 2019, and have issued our report thereon dated October 22, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 22, 2019

AMBER CHARTER SCHOOLS AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education:			
<u>Passed through NYS Department of Education</u>			
Title I - Grants to Local Educational Agencies	84.010	0021	\$ 444,180
Title IIA - Improving Teacher Quality	84.367	0147	52,863
Title IV - Student Support and Academic Enrichment	84.424	0204	<u>27,514</u>
TOTAL DEPARTMENT OF EDUCATION			524,557
U.S. Department of Agriculture:			
<u>Passed through NYS Department of Education</u>			
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	1000001406	104,854
National School Lunch Program	10.555	1000001406	<u>310,951</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>415,805</u>
			<u>\$ 940,362</u>

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of federal awards (the “schedule”) includes the federal grant activity of Amber Charter Schools and Affiliates and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Amber Charter Schools and Affiliates has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

AMBER CHARTER SCHOOLS AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness (es) identified?	_____	yes	_____ <u>x</u> _____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	_____ <u>x</u> _____ none reported
Noncompliance material to financial statements noted?	_____	yes	_____ <u>x</u> _____ no

Federal Awards

Internal control over major programs:			
• Material weakness (es) identified?	_____	yes	_____ <u>x</u> _____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	_____ <u>x</u> _____ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	_____	yes	_____ <u>x</u> _____ no

Identification of major program:

CFDA Number:

84.010

Name of Federal Program or Cluster:

Title I - Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs:

_____ \$750,000 _____

Auditee qualified as low-risk auditee?	_____	yes	_____ <u>x</u> _____	no
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AMBER CHARTER SCHOOLS AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2019

FINDINGS – FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM

None.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding 2018-001

Statement of condition

During our audit, we noted rent expense was understated. According to accounting principles generally accepted in the United States of America, a rental lease agreement which includes escalation clauses should be recognized on a straight-line basis over the term of the agreement. Management had recorded rent expense in accordance with the lease agreement and did not take into account the need to straight line the escalating payments. This resulted in a material audit adjustment to record additional rent expense and a corresponding deferred lease liability of approximately \$301,000. In addition, we noted debt issuance costs relating to an expired mortgage payable of approximately \$72,000 were not written off at the time of refinancing. This resulted in a significant audit adjustment.

Criteria and effect of conditions

According to accounting principles generally accepted in the United States of America, the Organization should recognize rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts paid under the lease as a deferred lease liability. In addition, debt issuance costs relating debt which has expired should be written off to expense.

Recommendation

We recommend the Organization review all rental lease agreements and ensure that the expense is recorded in accordance with accounting principles generally accepted in the United States of America. Further, we recommend the Organization review all accounts to ensure they are recorded accurately.

Management response

Management agrees with the lease liability and debt issuance costs adjustments. Management will ensure the lease agreements are reviewed and accounted for appropriately. We will make sure the lease liability entries are accounted for before the closing of the fiscal year.

Status at June 30, 2019

During our current year audit, we noted the rent expense and the deferred lease liability were recorded in accordance with accounting principles generally accepted in the United States of America and no significant audit adjustment was required.

AMBER CHARTER SCHOOLS AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd
YEAR ENDED JUNE 30, 2019

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS, Cont'd

Finding 2018-002

Statement of condition

During our audit, we noted the Organization did not adhere to the terms of their charter agreement, requiring an escrow account for the purposes of school closure and/or dissolution.

Criteria and effect of conditions

During our audit, we noted the charter agreement states annual installments of \$25,000 are required to be deposited to the Organization's escrow account for each school for the first three years of operation. We noted these accounts have not yet been established.

Recommendation

We recommend the Organization adhere to the charter agreements in establishing segregated escrow accounts and make the required deposits.

Management response

Management understood the School was exempt from the dissolution reserve fund requirement due to the charter's tenure of four renewals. After communicating with SUNY Charter Schools Institute, it is clear this account is a new requirement. The dissolution reserve fund account has been opened and funded as of October 24, 2018 with a balance of \$150,000 to meet this requirement.

Status at June 30, 2019

During our current year audit, we noted the escrow account was opened and properly funded.