

AMBER CHARTER SCHOOLS AND AFFILIATES

NEW YORK, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2020

(With Comparative Totals for 2019)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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, 2020, 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, 2020, 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, 2019 financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated October 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis of Matters

As discussed in Note A to the financial statements, in 2020, Amber Charter Schools and Affiliates adopted new accounting guidance for recognition of revenue, contributions received and statement of cash flows presentation. Our opinion is not modified with respect to these matters.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2020 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 16, 2020

AMBER CHARTER SCHOOLS AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020
(With Comparative Totals for 2019)

<u>ASSETS</u>	June 30,	
	2020	2019
<u>CURRENT ASSETS</u>		
Cash	\$ 10,634,029	\$ 7,387,027
Grants and contracts receivable	873,198	463,251
Other receivables	22,337	31,402
Prepaid expenses	149,950	93,596
TOTAL CURRENT ASSETS	11,679,514	7,975,276
<u>PROPERTY AND EQUIPMENT, net</u>	4,515,359	3,963,703
<u>OTHER ASSETS</u>		
Security deposits	131,604	72,878
Deferred lease receivable	241,888	-
Cash in escrow	153,398	152,046
	526,890	224,924
TOTAL ASSETS	\$ 16,721,763	\$ 12,163,903
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Current maturities of long-term debt	\$ 104,171	\$ 70,081
Accounts payable and accrued expenses	125,556	224,981
Accrued payroll and benefits	1,444,317	1,155,562
TOTAL CURRENT LIABILITIES	1,674,044	1,450,624
<u>OTHER LIABILITIES</u>		
Long-term debt, net of unamortized debt issuance costs of \$71,524 and \$75,859, respectively	1,991,451	1,967,023
Paycheck Protection Program note payable	1,915,100	-
Deferred lease liability	-	548,460
	3,906,551	2,515,483
TOTAL LIABILITIES	5,580,595	3,966,107
<u>NET ASSETS</u> - without donor restrictions	11,141,168	8,197,796
TOTAL LIABILITIES AND NET ASSETS	\$ 16,721,763	\$ 12,163,903

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, 2020
 (With Comparative Totals for 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Revenue, gains and other support:		
Public school district:		
Resident student enrollment	\$ 14,839,444	\$ 13,611,908
Students with disabilities	31,170	10,164
Grants and contracts:		
State and local	70,813	66,846
Federal - Title and IDEA	514,166	576,420
Federal - other	114,597	19,872
Food service / Child nutrition program	309,002	426,096
NYC DOE Rental Assistance	1,354,084	931,350
After school program	95,668	154,008
	<u>17,328,944</u>	<u>15,796,664</u>
	TOTAL REVENUE, GAINS AND OTHER SUPPORT	
Expenses:		
Program:		
Regular education	8,767,749	9,685,406
Special education	1,935,651	1,864,252
	<u>10,703,400</u>	<u>11,549,658</u>
	TOTAL PROGRAM EXPENSES	
Management and general	4,011,044	2,298,170
Fundraising and special events	155,494	117,386
	<u>14,869,938</u>	<u>13,965,214</u>
	TOTAL OPERATING EXPENSES	
	2,459,006	1,831,450
	SURPLUS FROM SCHOOL OPERATIONS	
Support and other revenue:		
Contributions		
Foundations	349,000	11,800
Individuals	13,597	25,178
Corporations	6,138	44,848
In-kind	-	49,541
Fundraising	87,002	322,729
Investment income	18,326	18,284
Miscellaneous income	10,303	20,584
	<u>484,366</u>	<u>492,964</u>
	TOTAL SUPPORT AND OTHER REVENUE	
	2,943,372	2,324,414
	CHANGE IN NET ASSETS	
Net assets without donor restrictions at beginning of year	<u>8,197,796</u>	<u>5,873,382</u>
	<u>\$ 11,141,168</u>	<u>\$ 8,197,796</u>
	NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	

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, 2020
(With Comparative Totals for 2019)

	Year ended June 30,								
	2020							2019	
	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	26	\$ 526,978	\$ 85,020	\$ 611,998	\$ 2,497,222	\$ -	\$ 2,497,222	\$ 3,109,220	\$ 2,249,117
Instructional personnel	95	4,165,957	1,056,853	5,222,810	-	-	-	5,222,810	4,758,488
Non-instructional personnel	6	197,580	31,852	229,432	-	-	-	229,432	198,570
Total salaries and staff	127	4,890,515	1,173,725	6,064,240	2,497,222	-	2,497,222	8,561,462	7,206,175
Fringe benefits and payroll taxes		1,422,420	344,100	1,766,520	718,505	-	718,505	2,485,025	2,052,146
Retirement		175,478	42,125	217,603	89,806	-	89,806	307,409	238,420
Professional development		59,045	10,496	69,541	-	-	-	69,541	105,932
Legal services		-	-	-	36,522	-	36,522	36,522	12,104
Accounting / Audit		-	-	-	23,526	-	23,526	23,526	36,115
Financial Management Services		-	-	-	89,497	-	89,497	89,497	137,998
Professional services		484,965	104,006	588,971	252,596	126,883	379,479	968,450	972,802
Travel and conference		20,768	5,107	25,875	10,384	-	10,384	36,259	30,119
Student and staff recruitment		44,158	7,618	51,776	12,983	-	12,983	64,759	65,134
Supplies / Materials		207,742	32,071	239,813	-	-	-	239,813	300,740
Office expenses		19,643	3,135	22,778	91,111	-	91,111	113,889	117,474
Food service		258,350	27,002	285,352	-	-	-	285,352	405,192
Student services		36,415	-	36,415	-	-	-	36,415	55,998
Insurance		64,140	15,600	79,740	32,832	-	32,832	112,572	102,328
Dues and subscriptions		21,322	5,078	26,400	10,676	-	10,676	37,076	31,272
Building and Land Rent / Lease		453,393	54,158	507,551	56,394	-	56,394	563,945	1,193,471
Utilities		24,703	6,229	30,932	12,336	-	12,336	43,268	193,891
Non-capitalized equipment and furnishings		7,738	1,425	9,163	1,018	-	1,018	10,181	3,695
Technology		111,052	18,345	129,397	14,377	-	14,377	143,774	53,974
Repairs and maintenance		48,901	8,930	57,831	6,425	-	6,425	64,256	113,818
Depreciation and amortization		214,692	38,168	252,860	28,096	-	28,096	280,956	256,072
Interest expense		100,240	20,358	120,598	13,397	-	13,397	133,995	134,137
Other		102,069	17,975	120,044	13,341	28,611	41,952	161,996	146,207
		<u>\$ 8,767,749</u>	<u>\$ 1,935,651</u>	<u>\$ 10,703,400</u>	<u>\$ 4,011,044</u>	<u>\$ 155,494</u>	<u>\$ 4,166,538</u>	<u>\$ 14,869,938</u>	<u>\$ 13,965,214</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, 2020
(With Comparative Totals for 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,943,372	\$ 2,324,414
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	280,956	256,072
Amortization of debt issuance costs included in interest expense	4,335	4,335
Bad debt expense	14,122	53,703
Changes in certain assets and liabilities affecting operations:		
Grants and contracts receivable	(409,947)	51,680
Other receivables	(5,057)	246,503
Prepaid expenses	(56,354)	(68,978)
Security deposits	(58,726)	730
Deferred lease receivable	(241,888)	-
Accounts payable and accrued expenses	(99,425)	21,234
Accrued payroll and benefits	288,755	79,964
Deferred revenue	-	(8,353)
Deferred lease liability	(548,460)	247,282
NET CASH PROVIDED FROM OPERATING ACTIVITIES	2,111,683	3,208,586
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Additions to property and equipment	(683,924)	(197,029)
NET CASH USED FOR INVESTING ACTIVITIES	(683,924)	(197,029)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Borrowings on Paycheck Protection Program note payable	1,915,100	-
Repayment of long-term debt	(94,505)	(65,983)
NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	1,820,595	(65,983)
NET INCREASE IN CASH AND RESTRICTED CASH	3,248,354	2,945,574
Cash and restricted cash at beginning of year	7,539,073	4,593,499
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 10,787,427</u>	<u>\$ 7,539,073</u>

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

YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	Year ended June 30,	
	2020	2019
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Interest paid	<u>\$ 129,659</u>	<u>\$ 129,802</u>
Reconciliation of cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash	\$ 10,634,029	\$ 7,387,027
Cash in escrow	<u>153,398</u>	<u>152,046</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 10,787,427</u>	<u>\$ 7,539,073</u>
<u>NON-CASH INVESTING AND FINANCING ACTIVITIES</u>		
Purchase of property and equipment through acquisition of long term debt	<u>\$ 148,688</u>	<u>\$ -</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, 2020

(With Comparative Totals for 2019)

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, 2021.

Amber III ("Amber III") operates in the borough of Manhattan, New York. On June 6, 2019, the SUNY Board of Trustees' Charter School Committee approved the initial five year charter for Amber III which will open Fall 2021. The charter term expires July 31, 2026.

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. Effective June 2020, the lease held by 3120 was assigned to Kingsbridge and the sublease was terminated. 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").

The Foundation is the sole member of Inwood 532 West 215th Street, LLC ("532 West"), a limited liability company established under the laws of the state of New York. 532 West was established to hold the lease agreement with an unrelated party for the property in which Amber III will operate. Such property will be sublet to Amber III.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

Principles of consolidation

The accompanying consolidated financial statements include the accounts of East Harlem, Kingsbridge, Amber III, Foundation, 652 West, 3120 Corlear, 220 East and 532 West, (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 2020 and 2019 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.

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, 2020 or 2019.

Revenue and support recognition

Revenue from Exchange Transactions: The Organization recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

The Organization records revenues both over time and at a point in time as follows:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Revenues earned over time	\$ 16,284,758	\$ 14,610,339
Revenues earned at a point in time	<u>87,002</u>	<u>322,729</u>
	<u>\$ 16,371,760</u>	<u>\$ 14,933,068</u>

Public school district revenue

The Organization recognizes revenue as educational programming is provided to students throughout the year. The Organization earns public school district revenue based on the approved per pupil tuition rate of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil tuition rate and the full-time equivalent student enrollment of the School. Each NYS school district has a fixed per pupil tuition rate which is calculated annually by NYSED in accordance with NYS Education Law. Amounts are billed in advance every other month and payments are typically received in six installments during the year. At the end of each school year, a reconciliation of actual enrollment to billed enrollment is performed and any additional amounts due or excess funds received are agreed upon between the Organization and the district(s) and are paid or recouped. Additional funding is available for students requiring special education services. The amount of additional funding is dependent upon the length of time and types of services provided by the Organization to each student, subject to a maximum amount based upon a set rate for each district as calculated by NYSED.

Rental assistance

Facilities rental assistance funding is provided by the New York City Dept of Education (NYCDOE) to qualifying charter schools located in the five boroughs of NYC. In order to receive rental assistance funding, a charter school must have commenced instruction or added grade levels in the 2014-15 school year or thereafter, and go through a space request process with the NYCDOE. If NYCDOE is not able to provide adequate space, the charter school can become eligible for rental assistance. Rental assistance is calculated as the lesser of 30% of the per-pupil tuition rate for NYC times the number of students enrolled, or actual total rental costs. As rental assistance is based on the number of students enrolled, revenue is recognized throughout the year as educational programming is provided to students.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

Fundraising

The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event— the exchange component, and a portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as fundraising expense in the statement of functional expenses. The performance obligation is delivery of the event. The event fee is set by the Organization. Special event fees collected by the Organization in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event. For special event fees received before year-end for an event to occur after year-end, the Organization follows AICPA guidance where the inherent contribution is conditioned on the event taking place and is therefore treated as a refundable advance along with the exchange component.

The following table summarizes contract balances at their respective statement of financial position dates:

	<u>June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Grants and other receivables	\$ 447,807	\$ -	\$ 273,127

Contributions

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions and unconditional promises to give are recorded as revenue in the appropriate class of net assets depending on the existence of any donor restrictions. A contribution that is received and expended in the same period for a specific purpose is classified as revenue without donor restrictions.

Contributions are recorded as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, 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, 2020

(With Comparative Totals for 2019)

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

Grant revenue

Some of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the accompanying statement of financial position. There was no revenue deferred at either June 30, 2020 or 2019. The Charter School received cost-reimbursement grants of approximately \$218,580 and \$3,098 that have not been recognized at June 30, 2020 and 2019, respectively, because qualifying expenditures have not yet been incurred.

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 \$153,398 and \$152,046 at June 30, 2020 and 2019, respectively.

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, 2020 or 2019.

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.

Construction in progress represents architect fees which have been performed on a building that Amber III is not yet occupying. Construction in progress is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

Deferred lease receivable (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 receivable (liability). The amount of additional rent paid in excess of the rent expense recognized under the lease was approximately \$790,000 for the year ended June 30, 2020. The amount of additional rent expense recognized in excess of the amounts paid under the lease was approximately \$247,300 for the year ended June 30, 2019.

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, 2017 through June 30, 2020 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.

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 did not receive any in-kind revenue for the year ended June 30, 2020. The Organization received consulting services valued at \$49,541 to support fundraising for the year ended June 30, 2019. This amount is 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 \$64,800 and \$65,100 for the years ended June 30, 2020 and 2019, 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.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

Reclassifications

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

Comparative information for the year ended June 30, 2019

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, 2019 from which the summarized information was derived.

Adoption of New Accounting Standards

Revenue from contracts with customers

In May 2014, FASB issued new guidance related to revenue recognition (ASC 606), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive in exchange for those goods or services. For nonpublic entities, ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Organization adopted ASC 606 effective July 1, 2019.

The Organization applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets, at July 1, 2019. There was no adjustment to the opening balance of net assets at July 1, 2019 as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The Organization does not expect the adoption of the new revenue standard to have a material impact on its net income on an ongoing basis.

As part of the adoption of ASC 606, the Organization elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. The Organization adopted the provisions of ASU 2018-08 applicable to contributions received and contributions made with a date of initial application of July 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets.

Statement of cash flows

In November 2016, the FASB issued new guidance related to the consolidated statement of cash flows (ASC 230), which requires entities to include restricted cash in the reconciliation of the beginning-of-year to the end-of-year of cash in the consolidated statement of cash flows. ASC 230 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Organization adopted this standard as of July 1, 2019 using the retrospective transition method.

New accounting pronouncement – 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 consolidated statement of financial position. 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 FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. 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 16, 2020, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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 years 2020 and 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, 2020 and 2019:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash	\$ 10,634,029	\$ 7,387,027
Grants and contracts receivable and other receivables	<u>895,535</u>	<u>494,653</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 11,529,564</u>	<u>\$ 7,881,680</u>

NOTE C: SCHOOL FACILITIES

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. On July 1, 2019, the terms of this lease were amended. The term of this amendment is for the period July 1, 2019 until June 30, 2021. Absent an agreement further amending the lease, the terms will revert back to the original 35-year lease.

The property was sublet to Kingsbridge in an agreement that commenced 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. Effective June 15, 2020, the lease held by 3120 Corlear with the unrelated third party was assigned to Kingsbridge and the sublease between 3120 Corlear and Kingsbridge was terminated. Total rental paid under the third party lease was approximately \$1,354,000 and \$956,000 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019. There are additional security deposits of \$11,698 and \$11,305 at June 30, 2020 and 2019, respectively, which represent deposits on electric meters and lease below.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE C: SCHOOL FACILITIES, Cont'd

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

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 1,401,000
2022	972,900
2023	975,300
2024	975,300
2025	975,300
Thereafter	<u>30,141,400</u>
	<u>\$ 35,441,200</u>

In May 2020, 532 West entered into a 35-year non-cancelable operating lease agreement with an unrelated third party for facility space, commencing July 2020 and expiring June 2055. 532 West and Amber III are in the process of negotiating a sublease for the space. In conjunction with this facility lease, 532 paid a first installment of the security deposit in the amount of \$58,333 which is included in security deposits on the accompanying consolidated statement of financial position at June 30, 2020. The remaining two installments of \$58,333 each are due on July 1, 2020 and July 1, 2021. The lease agreement between 532 West and the third party is guaranteed by Amber Charter Schools.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ -
2022	1,255,000
2023	1,338,000
2024	2,125,000
2025	2,233,000
Thereafter	<u>89,043,000</u>
	<u>\$ 95,994,000</u>

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 335,000	\$ 335,000
Building	5,063,610	4,884,954
Furniture and fixtures	561,015	490,555
Computers and equipment	1,473,376	1,318,890
Software	55,860	55,860
Leasehold improvements	292,467	112,145
Construction in progress	<u>248,688</u>	<u>-</u>
	8,030,016	7,197,404
Less accumulated depreciation and amortization	<u>3,514,657</u>	<u>3,233,701</u>
	<u>\$ 4,515,359</u>	<u>\$ 3,963,703</u>

Construction in progress relates mainly to architect fees for the Amber III location. No additional commitments have been entered into as of the report date. Property and equipment is not depreciated or amortized until the asset has been placed in service.

Depreciation expense for the years ended June 30, 2020 and 2019 was approximately \$281,000 and \$256,100, respectively.

NOTE E: PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

In response to the COVID-19 outbreak, in May 2020, the Organization applied for and was approved by a bank for a loan of \$1,915,100 through the Paycheck Protection Program established by the Small Business Administration. The loan has a maturity of two years and an interest rate of 1%. The loan has the potential for forgiveness provided certain requirements are met by the Organization. The loan was funded on May 7, 2020. Due to the potential of forgiveness, repayment terms have not been finalized as of the report date; therefore, the entire balance has been classified as long-term at June 30, 2020.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE F: 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:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Note payable, due in monthly installments of \$16,315, including interest at 6.04%, through December 2036. The note is collateralized by real property.	\$ 2,042,882	\$ 2,112,963
Less unamortized debt issuance costs	(71,524)	(75,859)
Capital lease, due in monthly installments of \$2,468, including interest at 5.71%, through September 2024. The lease is collateralized by certain equipment with a net book value of \$107,120 at June 30, 2020.	107,477	-
Capital lease, due in monthly installments of \$394, including interest at 6.43%, through August 2024. The lease is collateralized by certain equipment with a net book value of \$16,787 at June 30, 2020.	16,787	-
Less current portion of long-term debt	<u>(104,171)</u>	<u>(70,081)</u>
	<u>\$ 1,991,451</u>	<u>\$ 1,967,023</u>

Future maturities of long-term debt are summarized as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 104,171
2022	108,793
2023	113,702
2024	118,917
2025	100,029
Thereafter	<u>1,550,010</u>
	<u>\$ 2,095,622</u>

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE G: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Undesignated net assets	\$ 8,721,431	\$ 6,271,197
Invested in property and equipment, net of related debt	<u>2,419,737</u>	<u>1,926,599</u>
	<u>\$ 11,141,168</u>	<u>\$ 8,197,796</u>

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, 2020, 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.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2021	125,000
2022	94,500
2023	32,400
2024	6,900
2025	5,200
Thereafter	<u>37,400</u>
	<u>\$ 301,400</u>

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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, 2020 and 2019. The Organization made contributions of approximately \$307,400 and \$238,400 for the years ended June 30, 2020 and 2019, respectively.

NOTE K: UNION AGREEMENT

At June 30, 2020, the Organization had 127 employees, of which 42 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.

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, 2020 and 2019, approximately 97% and 86%, respectively of grants and contracts receivable are due from New York State relating to certain grants.

During both the years ended June 30, 2020 and 2019, 86% 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, 2021. 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 is in the process of submitting 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.

AMBER CHARTER SCHOOLS AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

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: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

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, 2020, and have issued our report thereon dated October 16, 2020, 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, 2020, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 16, 2020

AMBER CHARTER SCHOOLS

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

<u>ASSETS</u>	Amber Charter Schools				Amber Schools Foundation Inc.	Eliminations	Consolidated Total
	Amber East Harlem	Amber Kingsbridge	Amber III	Total			
<u>CURRENT ASSETS</u>							
Cash	\$ 5,643,979	\$ 3,131,109	\$ -	\$ 8,775,088	\$ 1,858,941	\$ -	\$ 10,634,029
Grants and contracts receivable	256,659	548,576	67,963	873,198	-	-	873,198
Other receivables	19,112	3,225	-	22,337	-	-	22,337
Prepaid expenses	19,052	130,898	-	149,950	-	-	149,950
Related party receivables (payables)	1,942,357	(491,784)	(74,528)	1,376,045	(1,376,045)	-	-
TOTAL CURRENT ASSETS	7,881,159	3,322,024	(6,565)	11,196,618	482,896	-	11,679,514
<u>PROPERTY AND EQUIPMENT, net</u>	3,770,627	496,044	248,688	4,515,359	-	-	4,515,359
<u>OTHER ASSETS</u>							
Security deposits	-	73,271	-	73,271	58,333	-	131,604
Deferred lease receivable	-	241,888	-	241,888	-	-	241,888
Cash in escrow	153,398	-	-	153,398	-	-	153,398
	153,398	315,159	-	468,557	58,333	-	526,890
TOTAL ASSETS	\$ 11,805,184	\$ 4,133,227	\$ 242,123	\$ 16,180,534	\$ 541,229	\$ -	\$ 16,721,763
<u>LIABILITIES AND NET ASSETS</u>							
<u>CURRENT LIABILITIES</u>							
Current maturities of long-term debt	\$ 100,142	\$ 4,029	\$ -	\$ 104,171	\$ -	\$ -	\$ 104,171
Accounts payable and accrued expenses	78,614	27,298	-	105,912	19,644	-	125,556
Accrued payroll and benefits	867,543	576,774	-	1,444,317	-	-	1,444,317
TOTAL CURRENT LIABILITIES	1,046,299	608,101	-	1,654,400	19,644	-	1,674,044
<u>OTHER LIABILITIES</u>							
Long-term debt, net of unamortized debt issuance costs of \$71,524	1,978,693	12,758	-	1,991,451	-	-	1,991,451
Paycheck Protection Program note payable	1,053,305	861,795	-	1,915,100	-	-	1,915,100
	3,031,998	874,553	-	3,906,551	-	-	3,906,551
TOTAL LIABILITIES	4,078,297	1,482,654	-	5,560,951	19,644	-	5,580,595
<u>NET ASSETS</u>	7,726,887	2,650,573	242,123	10,619,583	521,585	-	11,141,168
TOTAL LIABILITIES AND NET ASSETS	\$ 11,805,184	\$ 4,133,227	\$ 242,123	\$ 16,180,534	\$ 541,229	\$ -	\$ 16,721,763

AMBER CHARTER SCHOOLS

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2020

	Amber Charter Schools				Amber Schools Foundation Inc.	Eliminations	Consolidated Total
	Amber East Harlem	Amber Kingsbridge	Amber III	Total			
Revenue, gains and other support:							
Public school district:							
Resident student enrollment	\$ 8,007,455	\$ 6,831,989	\$ -	\$ 14,839,444	\$ -	\$ -	\$ 14,839,444
Students with disabilities	-	31,170	-	31,170	-	-	31,170
Grants and contracts:							
State and local	38,296	32,517	-	70,813	-	-	70,813
Federal - Title and IDEA	257,665	256,501	-	514,166	-	-	514,166
Federal - other	15,569	31,065	67,963	114,597	-	-	114,597
Food service / Child nutrition program	179,554	129,448	-	309,002	-	-	309,002
NYC DOE Rental Assistance	-	1,354,084	-	1,354,084	-	-	1,354,084
After school program	95,668	-	-	95,668	-	-	95,668
TOTAL REVENUE, GAINS AND OTHER SUPPORT	8,594,207	8,666,774	67,963	17,328,944	-	-	17,328,944
Expenses:							
Program:							
Regular education	4,463,895	4,293,676	-	8,757,571	10,178	-	8,767,749
Special education	1,305,069	630,582	-	1,935,651	-	-	1,935,651
TOTAL PROGRAM EXPENSES	5,768,964	4,924,258	-	10,693,222	10,178	-	10,703,400
Management and general	1,980,337	1,861,621	165,840	4,007,798	3,246	-	4,011,044
Fundraising and special events	-	-	-	-	155,494	-	155,494
TOTAL OPERATING EXPENSES	7,749,301	6,785,879	165,840	14,701,020	168,918	-	14,869,938
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	844,906	1,880,895	(97,877)	2,627,924	(168,918)	-	2,459,006
Support and other revenue:							
Contributions							
Foundations	500	1,000	340,000	341,500	7,500	-	349,000
Individuals	8,317	-	-	8,317	5,280	-	13,597
Corporations	1,118	20	-	1,138	5,000	-	6,138
Fundraising	10,840	24,288	-	35,128	51,874	-	87,002
Investment income	-	-	-	-	18,326	-	18,326
Miscellaneous income	9,312	990	-	10,302	1	-	10,303
TOTAL SUPPORT AND OTHER REVENUE	30,087	26,298	340,000	396,385	87,981	-	484,366
CHANGE IN NET ASSETS	874,993	1,907,193	242,123	3,024,309	(80,937)	-	2,943,372
Net assets at beginning of year	6,851,894	743,380	-	7,595,274	602,522	-	8,197,796
NET ASSETS AT END OF YEAR	\$ 7,726,887	\$ 2,650,573	\$ 242,123	\$ 10,619,583	\$ 521,585	\$ -	\$ 11,141,168

AMBER EAST HARLEM

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER

YEAR ENDED JUNE 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Sub-total	Management and general	Sub-total	
Personnel Services Costs:							
Administrative staff personnel	16	\$ 262,720	\$ 53,454	\$ 316,174	\$ 1,264,696	\$ 1,264,696	\$ 1,580,870
Instructional personnel	55	2,201,727	728,552	2,930,279	-	-	2,930,279
Non-instructional personnel	3	98,209	19,982	118,191	-	-	118,191
Total salaries and staff	74	2,562,656	801,988	3,364,644	1,264,696	1,264,696	4,629,340
Fringe benefits and payroll taxes		763,099	238,813	1,001,912	376,597	376,597	1,378,509
Retirement		92,015	28,797	120,812	45,411	45,411	166,223
Professional development		40,988	8,339	49,327	-	-	49,327
Legal services		-	-	-	6,705	6,705	6,705
Accounting / Audit		-	-	-	14,186	14,186	14,186
Financial Management Services		-	-	-	45,352	45,352	45,352
Professional services		239,478	67,139	306,617	83,001	83,001	389,618
Student and staff recruitment		17,754	5,196	22,950	7,139	7,139	30,089
Travel and conference		11,687	3,657	15,344	5,768	5,768	21,112
Supplies / Materials		86,375	17,574	103,949	-	-	103,949
Office expenses		9,392	1,911	11,303	45,211	45,211	56,514
Food service		132,714	27,002	159,716	-	-	159,716
Student services		26,088	-	26,088	-	-	26,088
Insurance		34,956	10,940	45,896	17,251	17,251	63,147
Dues and subscriptions		10,915	3,416	14,331	5,386	5,386	19,717
Utilities		14,909	4,665	19,574	7,358	7,358	26,932
Non-capitalized equipment and furnishings		5,963	1,213	7,176	797	797	7,973
Technology		60,457	12,301	72,758	8,084	8,084	80,842
Repairs and maintenance		36,757	7,479	44,236	4,915	4,915	49,151
Depreciation and amortization		149,064	30,329	179,393	19,933	19,933	199,326
Interest expense		99,759	20,298	120,057	13,339	13,339	133,396
Other		68,869	14,012	82,881	9,208	9,208	92,089
		<u>\$ 4,463,895</u>	<u>\$ 1,305,069</u>	<u>\$ 5,768,964</u>	<u>\$ 1,980,337</u>	<u>\$ 1,980,337</u>	<u>\$ 7,749,301</u>

AMBER KINGSBRIDGE

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER

YEAR ENDED JUNE 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Sub-total	Management and general	Sub-total	
Personnel Services Costs:							
Administrative staff personnel	10	\$ 264,258	\$ 31,566	\$ 295,824	\$ 1,183,296	\$ 1,183,296	\$ 1,479,120
Instructional personnel	40	1,964,230	328,301	2,292,531	-	-	2,292,531
Non-instructional personnel	3	99,371	11,870	111,241	-	-	111,241
Total salaries and staff	53	2,327,859	371,737	2,699,596	1,183,296	1,183,296	3,882,892
Fringe benefits and payroll taxes		659,321	105,287	764,608	335,146	335,146	1,099,754
Retirement		83,463	13,328	96,791	42,426	42,426	139,217
Professional development		18,057	2,157	20,214	-	-	20,214
Legal services		-	-	-	9,974	9,974	9,974
Accounting / Audit		-	-	-	6,840	6,840	6,840
Financial Management Services		-	-	-	30,145	30,145	30,145
Professional services		245,309	36,867	282,176	95,559	95,559	377,735
Student and staff recruitment		16,404	2,422	18,826	5,844	5,844	24,670
Travel and conference		9,081	1,450	10,531	4,616	4,616	15,147
Supplies / Materials		121,367	14,497	135,864	-	-	135,864
Office expenses		10,251	1,224	11,475	45,900	45,900	57,375
Food service		125,636	-	125,636	-	-	125,636
Student services		10,327	-	10,327	-	-	10,327
Insurance		29,184	4,660	33,844	14,835	14,835	48,679
Building and Land Rent / Lease		453,393	54,158	507,551	56,394	56,394	563,945
Dues and subscriptions		10,407	1,662	12,069	5,290	5,290	17,359
Utilities		9,794	1,564	11,358	4,978	4,978	16,336
Non-capitalized equipment and furnishings		1,775	212	1,987	221	221	2,208
Technology		50,595	6,044	56,639	6,293	6,293	62,932
Repairs and maintenance		12,144	1,451	13,595	1,510	1,510	15,105
Depreciation and amortization		65,628	7,839	73,467	8,163	8,163	81,630
Interest expense		481	60	541	58	58	599
Other		33,200	3,963	37,163	4,133	4,133	41,296
		<u>\$ 4,293,676</u>	<u>\$ 630,582</u>	<u>\$ 4,924,258</u>	<u>\$ 1,861,621</u>	<u>\$ 1,861,621</u>	<u>\$ 6,785,879</u>

AMBER III

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER

YEAR ENDED JUNE 30, 2020

	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	-	\$ -	\$ -	\$ -	\$ 49,230	\$ -	\$ 49,230	\$ 49,230
Total salaries and staff	-	-	-	-	49,230	-	49,230	49,230
Fringe benefits and payroll taxes		-	-	-	6,762	-	6,762	6,762
Retirement		-	-	-	1,969	-	1,969	1,969
Legal services		-	-	-	19,843	-	19,843	19,843
Financial Management Services		-	-	-	14,000	-	14,000	14,000
Professional services		-	-	-	74,036	-	74,036	74,036
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,840</u>	<u>\$ -</u>	<u>\$ 165,840</u>	<u>\$ 165,840</u>

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, 2020



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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, 2020 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 16, 2020.

Internal Control over Financial Reporting

Management of Amber Charter Schools and Affiliates is responsible for establishing and maintaining effective 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

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, Barw & Co. LLP

Rochester, New York
October 16, 2020



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, 2020. 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, 2020.

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, 2020, and have issued our report thereon dated October 16, 2020, 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 16, 2020

AMBER CHARTER SCHOOLS AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

	<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	\$ 370,321
Title IIA - Improving Teacher Quality	84.367	0147	50,748
Title IV - Student Support and Academic Enrichment	84.424	0204	33,037
Charter School Program - Replication and Expansion of High-Quality Charter Schools	84.282M	C403547	<u>67,963</u>
TOTAL DEPARTMENT OF EDUCATION			522,069
U.S. Department of Agriculture:			
<u>Passed through NYS Department of Education</u>			
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	1000001406	80,246
National School Lunch Program	10.555	1000001406	<u>221,323</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>301,569</u>
TOTAL ALL PROGRAMS			<u>\$ 823,638</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, 2020

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:			
• Material weakness (es) identified?	<u> </u>	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u>	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)?	<u> </u>	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?	<u> </u>	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, 2020

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2020-001

Statement of condition

During our audit, we noted certain professional consulting fees were overstated. According to accounting principles generally accepted in the United States of America, certain architect and construction costs should be capitalized as construction in progress as part of the cost of the building renovations and amortized over the life of the building renovations or the remaining term of the lease when the construction is complete and the building is placed into service. Management had expensed these items. This resulted in a significant audit adjustment of approximately \$249,000 to capitalize these items as construction in progress.

During our audit, we noted rent expense was overstated. 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. Effective July 1, 2019, a first amendment to the lease agreement with the third party had been signed, changing the amount of the lease for the period July 1, 2019 through June 30, 2021. Management did not take this amendment into consideration when calculating the straight-line basis of the lease agreement. This resulted in a material audit adjustment to record a reduction in rent expense of approximately \$976,000.

Criteria and effect of conditions

According to accounting principles generally accepted in the United States of America, the Organization should capitalize all architect fees and construction costs as part of the cost of the building renovations. These costs will be amortized over the life of the building or the remaining term of the lease when the construction is complete and the building is placed into service. Also, 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 receivable (liability).

Recommendation

We recommend the Organization review all professional consulting fees and ensure that all architect and construction costs are properly capitalized in accordance with accounting principles generally accepted in the United States of America. Further, we recommend the Organization review all rental lease agreements and ensure the expense is recorded in accordance with accounting principles generally accepted in the United States of America.

Management response

Management agrees with the adjustment of the architect cost from professional consulting fees to capitalize the cost as construction is in progress. Management has reviewed the Element of Cost (U.S. GAAP) 360 Property, Plant and Equipment to ensure all associated construction costs are booked properly.

Management agrees with the rent expense adjustments. Management will ensure the lease amendments are reviewed and accounted for on the straight-line basis before closing the fiscal year.

AMBER CHARTER SCHOOLS AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd
YEAR ENDED JUNE 30, 2020

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM

None.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.



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October 16, 2020

Corrective Action Plan - Year ended June 30, 2020

Finding 2020- 001

Statement of condition

During our audit, we noted certain professional consulting fees were overstated. According to accounting principles generally accepted in the United States of America, certain architect and construction costs should be capitalized as construction in progress as part of the cost of the building renovations and amortized over the life of the building renovations or the remaining term of the lease when the construction is complete and the building is placed into services. Management had expensed these items. This resulted in a significant audit adjustment of approximately \$249,000 to capitalize these items as construction is in progress.

During our audit, we noted rent expense was overstated. 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. Effective July 1, 2019, a first amendment to the lease agreement with the third party had been signed, changing the amount of the lease for the period July 1, 2019, through June 30, 2021. Management did not take this amendment into consideration when calculating the straight-line basis of the lease agreement. This resulted in a material audit adjustment to record a reduction in rent expense of approximately \$976,000.

Corrective Action Plan

Management has reviewed the Element of Cost (U.S. GAAP) 360 Property, Plant, and Equipment and will ensure architect fees along with construction costs are capitalized as construction in progress.

Management will implement procedures to ensure lease amendments are reviewed and accounted for on the straight-line basis before closing the fiscal year.

A handwritten signature in purple ink, appearing to read 'Vasthi R. Acosta', written over a horizontal line.

Dr. Vasthi R. Acosta
Executive Director

A handwritten signature in black ink, appearing to read 'Kirsys Gomez', written over a horizontal line.

Kirsys Gomez
Chief Finance & Administration Officer