

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Ember Charter School for Mindful Education,
Innovation & Transformation

Report on the Financial Statements

We have audited the accompanying financial statements of Ember Charter School for Mindful Education, Innovation & Transformation, formerly known as Teaching Firms of America Professional Preparatory Charter School ("Ember"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ember Charter School for Mindful Education, Innovation & Transformation as of June 30, 2017, and the changes in its unrestricted net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Ember, as of and for the year ended June 30, 2016, were audited by other auditors whose report dated October 18, 2016 expressed an unmodified opinion on those statements. The summarized comparative information presented herein, as of and for the year ended June 30, 2016, was derived from those audited financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of Ember Charter School for Mindful Education, Innovation & Transformation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Ember Charter School for Mindful Education, Innovation & Transformation's internal control over financial reporting and compliance.

Berdon LLP
Certified Public Accountants

New York, New York
October 31, 2017

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 916,430	\$ 1,593,352
Grants receivable	184,279	106,698
Prepaid expenses	11,996	64,267
Employee advances	89,989	40,042
TOTAL CURRENT ASSETS	1,202,694	1,804,359
PROPERTY, PLANT AND EQUIPMENT - NET	311,078	340,641
OTHER ASSETS:		
Security deposits	10,000	-
Restricted cash	75,093	75,081
TOTAL ASSETS	\$ 1,598,865	\$ 2,220,081
LIABILITIES AND UNRESTRICTED NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 118,577	\$ 41,939
Accrued salaries and other payroll related expenses	1,135,997	1,301,518
Refundable advances	7,510	5,105
TOTAL CURRENT LIABILITIES	1,262,084	1,348,562
COMMITMENT AND CONTINGENCY		
NET ASSETS - UNRESTRICTED:		
Undesignated	261,688	796,438
Reserve - contingency	75,093	75,081
TOTAL NET ASSETS - UNRESTRICTED	336,781	871,519
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 1,598,865	\$ 2,220,081

The accompanying notes to financial statements are an integral part of these statements.

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

**STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u> (SUMMARIZED)
OPERATING REVENUE AND OTHER SUPPORT:		
State and local per pupil operating revenue:		
General education	\$ 6,125,870	\$ 5,332,214
Special education	1,261,744	1,039,828
Facility lease assistance	<u>103,803</u>	<u>-</u>
Total state and local per pupil operating revenue	<u>7,491,417</u>	<u>6,372,042</u>
Grants, contracts and other support:		
State and local grants	37,208	32,889
Federal grants	245,200	261,629
Contributions	29,539	2,750
Interest and other income	<u>36,197</u>	<u>4,691</u>
Total grants, contracts and other support	<u>348,144</u>	<u>301,959</u>
TOTAL OPERATING REVENUE AND OTHER SUPPORT	<u>7,839,561</u>	<u>6,674,001</u>
EXPENSES:		
Program expenses:		
Regular education	6,516,430	5,306,654
Special education	<u>1,287,326</u>	<u>1,071,619</u>
Total program expenses	<u>7,803,756</u>	<u>6,378,273</u>
Supporting services:		
Management and general	502,811	624,932
Fund-raising	<u>67,732</u>	<u>104,162</u>
Total supporting services	<u>570,543</u>	<u>729,094</u>
TOTAL EXPENSES	<u>8,374,299</u>	<u>7,107,367</u>
(DECREASE) IN UNRESTRICTED NET ASSETS	(534,738)	(433,366)
NET ASSETS - UNRESTRICTED - BEGINNING OF YEAR	<u>871,519</u>	<u>1,304,885</u>
NET ASSETS - UNRESTRICTED - END OF YEAR	<u>\$ 336,781</u>	<u>\$ 871,519</u>

The accompanying notes to financial statements are an integral part of these statements.

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>REGULAR EDUCATION</u>	<u>SPECIAL EDUCATION</u>	<u>TOTAL PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND-RAISING</u>	<u>TOTAL</u>	<u>TOTAL - 2017</u>	<u>TOTAL - 2016 (SUMMARIZED)</u>
PERSONNEL EXPENSES:								
Instructional staff	\$ 4,195,223	\$ 821,236	\$ 5,016,459	\$ 50,000	\$ 25,000	\$ 75,000	\$ 5,091,459	\$ 4,287,091
Administrative staff	<u>141,128</u>	<u>48,377</u>	<u>189,505</u>	<u>275,770</u>	<u>24,488</u>	<u>300,258</u>	<u>489,763</u>	<u>383,083</u>
TOTAL PERSONNEL EXPENSES	<u>4,336,351</u>	<u>869,613</u>	<u>5,205,964</u>	<u>325,770</u>	<u>49,488</u>	<u>375,258</u>	<u>5,581,222</u>	<u>4,670,174</u>
OPERATING EXPENSES:								
Payroll taxes and fringe benefits	873,456	175,163	1,048,619	65,619	9,968	75,587	1,124,206	918,871
Professional fees	3,182	638	3,820	38,769	36	38,805	42,625	39,166
Professional development	98,988	16,677	115,665	4,018	-	4,018	119,683	102,603
Outside services - consultants	189,174	32,298	221,472	16,400	152	16,552	238,024	256,809
Student field trips	58,899	9,923	68,822	-	-	-	68,822	58,746
Office expenses and supplies	91,471	18,344	109,815	6,872	1,343	8,215	118,030	102,053
Food services	48,152	8,113	56,265	-	-	-	56,265	47,867
Information and technology	63,433	12,721	76,154	4,765	724	5,489	81,643	97,908
Telephone and Internet	57,783	11,588	69,371	4,341	659	5,000	74,371	90,013
Insurance	38,107	7,642	45,749	2,863	435	3,298	49,047	42,230
Instructional materials	148,362	24,996	173,358	-	-	-	173,358	138,378
Furniture and equipment	26,669	4,650	31,319	367	56	423	31,742	39,804
Classroom supplies	37,145	6,333	43,478	176	27	203	43,681	30,584
Conferences	20,739	3,494	24,233	-	-	-	24,233	23,325
Postage and shipping	1,571	315	1,886	118	18	136	2,022	3,224
Repairs and maintenance	65,550	13,146	78,696	4,925	748	5,673	84,369	35,747
Rent	117,515	23,566	141,081	8,828	1,341	10,169	151,250	-
Advertising and recruiting	109,111	21,881	130,992	8,197	1,245	9,442	140,434	177,585
Bad debts	-	-	-	959	-	959	959	69,569
Depreciation and amortization	<u>130,772</u>	<u>26,225</u>	<u>156,997</u>	<u>9,824</u>	<u>1,492</u>	<u>11,316</u>	<u>168,313</u>	<u>162,711</u>
TOTAL OPERATING EXPENSES	<u>2,180,079</u>	<u>417,713</u>	<u>2,597,792</u>	<u>177,041</u>	<u>18,244</u>	<u>195,285</u>	<u>2,793,077</u>	<u>2,437,193</u>
TOTAL EXPENSES	<u>\$ 6,516,430</u>	<u>\$ 1,287,326</u>	<u>\$ 7,803,756</u>	<u>\$ 502,811</u>	<u>\$ 67,732</u>	<u>\$ 570,543</u>	<u>\$ 8,374,299</u>	<u>\$ 7,107,367</u>

The accompanying notes to financial statements are an integral part of these statements.

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u>
		(SUMMARIZED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) in net assets	\$ (534,738)	\$ (433,366)
Adjustments to reconcile (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	168,313	162,711
(Gain) on disposal of property, plant and equipment	(168)	(659)
Bad debt	959	69,569
Changes in operating assets and liabilities:		
Grants receivable	(77,581)	73,930
Prepaid expenses	52,271	(60,315)
Employee advances	(50,906)	(25,766)
Security deposits	(10,000)	-
Accounts payable	57,687	12,993
Accrued salaries and other payroll-related expenses	(165,521)	576,550
Refundable advances	<u>2,405</u>	<u>2,060</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(557,279)</u>	<u>377,707</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) in restricted cash	(12)	(17)
Proceeds from sale of assets	200	2,004
Acquisition of property, plant and equipment	<u>(119,831)</u>	<u>(135,201)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(119,643)</u>	<u>(133,214)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(676,922)	244,493
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,593,352</u>	<u>1,348,859</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 916,430</u>	<u>\$ 1,593,352</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	<u>\$ 18,951</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of these statements.

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Ember Charter School for Mindful Education, Innovation & Transformation (the "School"), was formerly known as Teaching Firms of America Professional Preparatory Charter School. Ember Charter School for Mindful Education, Innovation & Transformation is a public charter school located in Brooklyn, New York. The School opened in 2010 and currently operates classes from kindergarten to sixth grade. On March 13, 2017, a charter renewal was granted for a term up to and including June 30, 2022. The School's mission is to prepare students to become the future professionals (lawyers, doctors, scientists, entrepreneurs, etc.) who will lead our global society in the 21st century. The School's vision is to provide a fun, "college-successful," community-centered, culturally rich and relevant preparatory school experience to its students, where they will be nurtured, challenged and cultivated into highly intelligent, creative and critically thinking young leaders.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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.

(b) Net Asset Presentation

The classification of the School's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities and changes in unrestricted net assets.

These classes are defined as follows:

- Permanently restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School has no permanently restricted net assets at June 30, 2017.

(continued)

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Temporarily restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in unrestricted net assets. The School has no temporarily restricted net assets at June 30, 2017.
- Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) Cash and Cash Equivalents

The School considers all short-term, highly liquid investments, such as money market funds, to be cash equivalents.

(d) Grants Receivable

Grants receivable are recorded at net realizable value. The allowance for doubtful accounts is the School's best estimate of the amount of probable credit losses in existing receivables. Management determines the allowance based on historical write-off experience and reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectibility. Grants receivable are \$184,279 at June 30, 2017. There are no allowances recorded at June 30, 2017, as management believes all amounts are collectible.

(e) Donated Goods and Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the accompanying statement of activities and changes in net assets, since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

The School is located in a New York City Department of Education facility and utilizes approximately 116,000 square feet at no charge. In addition, the School received donated transportation and food service services from the local district. The School was unable to determine a value for these services.

(f) Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with dissolution, should such event occur.

(continued)

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue Recognition

The School recognizes revenue from the state and local governments based on the School's charter status and the number of students enrolled. Such revenue is recorded when services are performed, in accordance with the charter agreement. The New York State Department of Education mandates the rate per pupil. Such revenue is recognized ratably over the related school year in which it is earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to the students during the applicable school year. Funds received in advance, or any unspent funds for which qualifying expenditures have not been incurred, are recorded as refundable advances. Any unspent amounts usually are returned to the granting agency. However, the granting agency can approve that those amounts be applied to a future grant period.

(h) Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on an individual basis in the accompanying statement of activities and changes in unrestricted net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expense includes expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

(i) Property, Plant and Equipment

Property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$1,500. Items with an acquisition cost of less than \$1,500 or a useful life of less than one year are expensed in the year purchased. Depreciation is computed using the straight-line method over estimated useful lives of the respective assets of six years for leasehold improvements, furniture and fixtures, and office and telephone equipment, and three years for computer equipment and software.

(j) Refundable Advances

Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

(k) Income Taxes

On February 1, 2012, the School filed and received approval of its application for tax-exempt status from the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as a publicly supported organization as described in IRC sections 509(A)(1) and 170(B)(1)(A)(II).

(continued)

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that, as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The School has not incurred any unrelated business income.

The School is no longer subject to income tax examination by federal, state, or local tax authorities for years before June 30, 2013.

(l) Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2016 is presented for comparative purposes only. The notes to the financial statements and certain activity by net asset classification are not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements, as of and for the year ended June 30, 2016, from which the summarized comparative information was derived.

(m) Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, "Presentation of Financial Statements for Not-for-Profit Entities." Under the new guidance, the existing three-category classification of net assets will be collapsed into two categories: with donor restrictions and without donor restrictions. Endowments that have a current fair value that is less than the original gift amount (underwater) will be classified in net assets with donor restrictions and expanded disclosures will be required. Additional requirements include disclosure of board-designated net assets, expanded reporting to present expenses by function and natural classification, and eliminating the disclosure of investment expenses that are netted against investment returns. ASU No. 2016-14 is effective for the fiscal years beginning after December 15, 2017 and early adoption is permitted. The School has not yet evaluated the impact this adoption will have on the financial statements.

(n) Subsequent Events

Management has evaluated subsequent events occurring after June 30, 2017 through October 31, 2017, which is the date the financial statements were available to be issued. Based on this evaluation, management has determined that no subsequent events have occurred which require disclosure in the financial statements.

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION**

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

At June 30, 2017, property and equipment consisted of the following:

Leasehold improvements	\$ 486,937
Furniture and fixtures	86,586
Computer equipment	233,806
Office and telephone equipment	194,505
Software	<u>89,428</u>
	1,091,262
Less, accumulated depreciation	<u>780,184</u>
	\$ <u>311,078</u>

NOTE 4 - ACCRUED SALARIES AND OTHER PAYROLL-RELATED EXPENSES

Accrued expenses consist of employee bonuses and payroll taxes. Employees are eligible to receive a bonus based on performance evaluations. For the year ended June 30, 2017, employee bonuses were \$946,805.

NOTE 5 - RETIREMENT PLAN

The School offers a 401(k) plan for all qualifying employees who are age 21 years or older. Employees are eligible for the plan immediately upon employment. Participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 95% of their annual compensation, up to \$18,000 for the 2016 and 2017 calendar years. For employees that have completed one year of eligibility service, the School matches 100% an employee's contribution up to 3% of the employee's annual compensation and 50% of an employee's contribution that are between 3% to 5% of an employee's annual compensation. For the year ended June 30, 2017, the School's matching contribution was \$122,003. Such plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the plan's participants and beneficiaries.

NOTE 6 - CONCENTRATIONS OF RISK

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and cash equivalents.

The School received approximately 92% of its operating revenue, which is subject to specific requirements, from per pupil funding from the New York City Department of Education during the year ended June 30, 2017. Additionally the School's grants receivable consists of approximately 99% from the New York State Department of Education.

**EMBER CHARTER SCHOOL FOR MINDFUL
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NOTES TO FINANCIAL STATEMENTS

NOTE 7 - COMMITMENTS AND CONTINGENCY

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and grant agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of management, have a material effect on the School's financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

The School has employment agreements with four key members of management which generally provide for minimum annual base compensation, bonus of up to 150% of base compensation, and other benefits.

Due to the School's negative working capital and negative cash flows, the School is renegotiating its employment agreements with these four key members to avoid future deficits.

NOTE 8 - SUPPORT SERVICES

The School entered into an agreement (the "Agreement") with a third party to provide assistance with accounting and bookkeeping, financial reporting and budgeting, and grant financial management. The agreement expired on June 30, 2017, but was renewed for an additional year.

NOTE 9 - RELATED PARTY TRANSACTIONS

The School advances funds to employees at the discretion of the partners or board of trustees. These loans bear no interest and have various repayment terms.

**INDEPENDENT AUDITORS' 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**

To the Board of Trustees of
Ember Charter School for Mindful
Education, Innovation & Transformation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ember Charter School for Mindful Education, Innovation & Transformation (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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. We identified two instances of noncompliance described in the accompanying schedule of findings and questioned costs as Finding No. 2017-001 and Finding No. 2017-002.

Ember Charter School for Mindful Education, Innovation & Transformation's Response to Findings

Ember Charter School for Mindful Education, Innovation & Transformation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Ember Charter School for Mindful Education, Innovation & Transformation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berdon LLP
Certified Public Accountants

New York, New York
October 31, 2017

**EMBER CHARTER SCHOOL FOR MINDFUL
EDUCATION, INNOVATION & TRANSFORMATION
(A NONPROFIT CORPORATION)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

I. SUMMARY OF AUDITORS' RESULTS:

1. The auditors' report expresses an unmodified opinion whether the financial statements of Ember Charter School for Mindful Education, Innovation & Transformation were prepared in accordance with GAAP.
2. Two instances of noncompliance material to the financial statements of Ember Charter School for Mindful Education, Innovation & Transformation were disclosed during the audit.

II. FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS AUDIT:

Finding No.: 2017-001 - Payroll

Criteria: Employers generally must withhold federal income tax from employees' wages. Employers must also provide employees with W-2 reports explaining the compensation paid and withholding amounts. Employers generally must also withhold part of Social Security and Medicare taxes from employees' wages and pay a matching amount.

Condition: Employees' W-2 reports were understated, related income and payroll taxes were not properly withheld, and the School did not pay the matching payroll tax amount.

Cause: At the request of three employees, the School processed part of its annual employee bonuses outside of its third-party payroll service provider.

Effect: The School is noncompliant with Internal Revenue Service requirements.

Recommendation: We recommend that the School process all payroll through its third-party service provider.

Questioned Costs: N/A

Views of Responsible Officials: We will take all necessary steps to appropriately abate this good-faith error and appropriately account for payments to these three employees through payroll, including the update, filing and payment of all tax-related matters.

Finding No.: 2017-002 - Teacher Certification

Criteria: Teachers must be certified. However, there is a teacher certification exemption that allows charter schools to have uncertified teachers for 30% of their teaching staff, or 15 teachers, whichever is less.

Condition: The School has 45 teachers. Of that number, 22 teachers were uncertified.

Cause: The School did not hire certified teachers. The School did not enforce that returning teachers remain current with their certification.

Effect: The School is not compliant with federal and state regulations that all teachers are New York certified, except for the exemptions noted above.

Recommendation: We recommend that the School hire teachers who are New York State certified in the subject and grade level for their assignment.

Questioned Costs: N/A

Views of Responsible Officials: The recent changes in New York State's teacher certification rules have resulted in longer time for the processing and compliance of certifications requirements for some of our teachers (14 of the 22 uncertified teachers are pending certification). We are working with the teachers involved to clear these certification challenges by the end of SY2017-18. Teachers who do not have these matters resolved by this deadline may not be asked to return for the following school year.