

EDISON SCHOOL OF THE ARTS, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2021 and 2020



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
Edison School of the Arts, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Edison School of the Arts, Inc. which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors consider 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edison School of the Arts, Inc. as of June 30, 2021 and 2020, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, Edison School of the Arts, Inc. has recorded in-kind contributions and offsetting expenses from Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools (“IPS”), a related party, totaling \$3,315,041 and \$3,246,291 during the years ended June 30, 2021 and 2020, respectively. These in-kind transactions represent approximately 43% of total revenue and support for both years ended June 30, 2021 and 2020, and 43% and 44% of total expenses for the years ended June 30, 2021 and 2020, respectively. These amounts are calculated by IPS using significant estimates and judgments and are recorded by management of Edison School of the Arts, Inc. as presented. Our opinion is not modified with respect to this matter.

DONOVAN

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Indianapolis, Indiana
October 1, 2021

EDISON SCHOOL OF THE ARTS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 746,136	\$ 926,391
Grants receivable	204,013	9,007
Prepaid expenses	-	59,448
<i>Total current assets</i>	<u>950,149</u>	<u>994,846</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	142,668	74,364
Textbooks	64,423	64,423
Less: accumulated depreciation	<u>(129,408)</u>	<u>(74,101)</u>
<i>Property and equipment, net</i>	<u>77,683</u>	<u>64,686</u>
TOTAL ASSETS	<u>\$ 1,027,832</u>	<u>\$ 1,059,532</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 275,191	\$ 261,266
Refundable advances	-	20,000
<i>Total current liabilities</i>	<u>275,191</u>	<u>281,266</u>
NET ASSETS		
Without donor restrictions	736,069	759,303
With donor restrictions	<u>16,572</u>	<u>18,963</u>
<i>Total net assets</i>	<u>752,641</u>	<u>778,266</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,027,832</u>	<u>\$ 1,059,532</u>

See independent auditors' report and accompanying notes to the financial statements

EDISON SCHOOL OF THE ARTS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>			<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT						
Student-based allocation funding from IPS	\$ 4,250,461	\$ -	\$ 4,250,461	\$ 4,231,735	\$ -	\$ 4,231,735
In-kind contributions from IPS	3,315,041	-	3,315,041	3,246,291	-	3,246,291
Contributions	16,580	-	16,580	12,785	-	12,785
Interest income	351	-	351	736	-	736
Other income	67,841	-	67,841	44,926	-	44,926
Net assets released from restrictions	2,391	(2,391)	-	609	(609)	-
<i>Total revenue and support</i>	<u>7,652,665</u>	<u>(2,391)</u>	<u>7,650,274</u>	<u>7,537,082</u>	<u>(609)</u>	<u>7,536,473</u>
EXPENSES						
Program services	6,199,839	-	6,199,839	6,005,128	-	6,005,128
Management and general	1,476,060	-	1,476,060	1,325,414	-	1,325,414
<i>Total expenses</i>	<u>7,675,899</u>	<u>-</u>	<u>7,675,899</u>	<u>7,330,542</u>	<u>-</u>	<u>7,330,542</u>
CHANGE IN NET ASSETS	(23,234)	(2,391)	(25,625)	206,540	(609)	205,931
NET ASSETS, BEGINNING OF YEAR	<u>759,303</u>	<u>18,963</u>	<u>778,266</u>	<u>552,763</u>	<u>19,572</u>	<u>572,335</u>
NET ASSETS, END OF YEAR	<u>\$ 736,069</u>	<u>\$ 16,572</u>	<u>\$ 752,641</u>	<u>\$ 759,303</u>	<u>\$ 18,963</u>	<u>\$ 778,266</u>

See independent auditors' report and accompanying notes to the financial statements

EDISON SCHOOL OF THE ARTS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>			<u>2020</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
In-kind expenses:						
Occupancy	\$ 1,326,687	\$ 331,672	\$ 1,658,359	\$ 1,205,736	\$ 301,434	\$ 1,507,170
Student transportation	538,503	134,626	673,129	521,630	130,407	652,037
Food services	244,879	61,220	306,099	406,379	101,595	507,974
General education	178,198	44,550	222,748	207,658	51,915	259,573
Special education personnel	305,446	76,361	381,807	193,230	48,308	241,538
Security services	58,319	14,580	72,899	62,399	15,600	77,999
<i>Total in-kind expenses</i>	<u>2,652,033</u>	<u>663,008</u>	<u>3,315,041</u>	<u>2,597,033</u>	<u>649,258</u>	<u>3,246,291</u>
Direct expenses:						
Salaries and wages	2,455,394	550,256	3,005,650	2,373,431	444,258	2,817,689
Employee benefits	675,719	148,329	824,048	637,047	139,839	776,886
Professional services	137,341	70,356	207,697	110,169	57,085	167,254
Supplies	135,605	14,749	150,354	81,998	15,580	97,578
Depreciation	55,307	-	55,307	41,500	-	41,500
Insurance	29,576	7,394	36,970	29,351	7,338	36,689
Staff development	32,692	-	32,692	78,089	-	78,089
School events	25,797	-	25,797	55,388	-	55,388
Advertising	-	822	822	-	1,525	1,525
Travel	-	-	-	-	41	41
Other	375	21,146	21,521	1,122	10,490	11,612
<i>Total direct expenses</i>	<u>3,547,806</u>	<u>813,052</u>	<u>4,360,858</u>	<u>3,408,095</u>	<u>676,156</u>	<u>4,084,251</u>
<i>Total functional expenses</i>	<u>\$ 6,199,839</u>	<u>\$ 1,476,060</u>	<u>\$ 7,675,899</u>	<u>\$ 6,005,128</u>	<u>\$ 1,325,414</u>	<u>\$ 7,330,542</u>

See independent auditors' report and accompanying notes to the financial statements

EDISON SCHOOL OF THE ARTS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (25,625)	\$ 205,931
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	55,307	41,500
Changes in certain assets and liabilities:		
Grants receivable	(195,006)	177,097
Prepaid expenses	35,511	(35,511)
Accounts payable and accrued expenses	13,925	59,647
Refundable advances	<u>(20,000)</u>	<u>(9,074)</u>
 <i>Net cash provided by (used in) operating activities</i>	 (135,888)	 439,590
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(44,367)</u>	<u>(51,925)</u>
NET CHANGE IN CASH	(180,255)	387,665
CASH, BEGINNING OF YEAR	<u>926,391</u>	<u>538,726</u>
CASH, END OF YEAR	<u>\$ 746,136</u>	<u>\$ 926,391</u>
 SUPPLEMENTAL CASH FLOW DISCLOSURES		
Prepaid property and equipment acquisitions	\$ 23,937	\$ (23,937)

See independent auditors' report and accompanying notes to the financial statements

EDISON SCHOOL OF THE ARTS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Edison School of the Arts, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana for the purpose of operating as a public school. The School operates under an agreement with Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools ("IPS") to operate the School as an Innovation Network School. The agreement remains in effect until June 30, 2022 and is renewable thereafter by mutual consent. The School served approximately 620 students during both the 2020-2021 and 2019-2020 school years, in grades kindergarten through eighth.

Key matters outlined in the Innovation Network School Agreement with IPS include:

- a) The School is considered to be a part of IPS and is not a separate local education agency;
- b) Most of the key operational decisions relating to students' enrollment, curriculum, and performance shall be in accordance with the policies of IPS and any significant changes made with respect to these need to be approved by IPS;
- c) The School is responsible for all personnel and human resources aspects of its operations and shall not be bound by any contract entered into with IPS;
- d) The School has the right to use certain land, building, equipment, furnishings, and property improvements owned by IPS;
- e) IPS provides certain services including occupancy, student transportation, food services, general education, special education, and security services. See Note 3 for further description of these services and associated values; and
- f) IPS pays the School a monthly payment determined through a student-based allocation formula. The School receives eligible portions of the governmental funding (including Title I and II) through IPS since the School is not a separate local education agency. The determination of the allocations is based upon the School's expenditures and budgets approved by IPS.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions, which include unrestricted resources that are available for the operating objectives of the School; and
- net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

Basis of Accounting and Use of Estimates – The accompanying financial statements have been prepared on the accrual basis of accounting 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

EDISON SCHOOL OF THE ARTS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2021 and 2020.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and passed through IPS. The School believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Property and Equipment – Purchases of assets and expenditures over \$1,000 that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Furniture and equipment	3 - 5 years
Textbooks	3 - 5 years

Taxes on Income – The School has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2021 and 2020, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Since the School commenced operations in 2018, all tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through October 1, 2021, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

EDISON SCHOOL OF THE ARTS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 2 - REVENUE RECOGNITION

Revenue Recognition Standard – Effective July 1, 2020, the School adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 replaced previous revenue recognition guidance under U.S. GAAP and requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. The School has applied the provisions of this ASU to the June 30, 2021 and 2020 financial statements. There was no material impact on the financial statements.

Revenue Recognition Policy – As discussed previously in Note 1, the majority of the School’s revenue and support is provided by IPS as part of the Innovation Network School Agreement. Under the agreement with IPS, the School receives monthly funding from IPS in accordance with a student-based allocation formula. Funding includes both fixed and variable components. The variable funding depends upon certain attributes including the number of students, student grades, poverty status, and other factors. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School’s revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred. Incurring approved costs under the grants is considered satisfaction of the performance obligations.

The School also receives contributions and grants from other agencies and individuals which are recorded in accordance with the terms of the underlying agreements.

Student fees, including textbook rentals, are recognized in the year in which the services are rendered.

Disaggregation of Revenue – Revenue is disaggregated on the statements of activities and changes in net assets.

NOTE 3 - VALUATION OF IN-KIND SERVICES

The School recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$3,315,041 and \$3,246,291 during the years ended June 30, 2021 and 2020, respectively. These in-kind transactions represent approximately 43% of total revenue and support for both years ended June 30, 2021 and 2020, and 43% and 44% of total expenses for the years ended June 30, 2021 and 2020, respectively. The values of in-kind services are calculated by IPS using significant estimates and judgments and are recorded by management of the School as presented.

NOTE 4 - REFUNDABLE ADVANCES

The School has been awarded grants to provide educational instruction that are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. The School had refundable grant advances in excess of expenditures of \$20,000 as of June 30, 2020. These funds were used for their intended purposes during the year ended June 30, 2021. The School had no refundable grant advances as of June 30, 2021.

EDISON SCHOOL OF THE ARTS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent resources received from donors but not expended for their restricted purposes as of June 30, 2021 and 2020. The School maintains a cash account funded by donors for the purpose of providing financial assistance to students' families in financial need. The balance in this donor-restricted fund was \$16,572 and \$18,963 as of June 30, 2021 and 2020, respectively. During the years ended June 30, 2021 and 2020, \$2,391 and \$609, respectively, were released from restrictions due to the accomplishment of the purpose restriction.

NOTE 6 - RETIREMENT PLANS

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. School employees also have the option to participate in a 403(b) plan administered by an outside party. The School does not make employer contributions to the 403(b) plan.

Contribution requirements of plan members are determined annually by the INPRS Board. The School contributed 7.5% and 5.5% of compensation for eligible teaching personnel to TRF during the years ended June 30, 2021 and 2020, respectively, and 11.2% for other employees to PERF during both years ended June 30, 2021 and 2020. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2020 (the latest year reported), TRF and PERF were approximately 83% and 100% funded, respectively.

Total contributions to INPRS for TRF and PERF were \$211,444 and \$226,654 during the years ended June 30, 2021 and 2020, respectively.

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Indianapolis, Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of a grant receivable from IPS. The School also receives substantial financial assistance from IPS in the form of in-kind contributions covering occupancy, student transportation, food services, general education, special education, and security services. Changes to the Innovation Network School Agreement with IPS could significantly affect the School.

In addition, deposits are maintained at The National Bank of Indianapolis and are insured up to the FDIC insurance limit of \$250,000. As of June 30, 2021 and 2020 and regularly throughout the years, funds held at The National Bank of Indianapolis exceeded FDIC insurance limits.

EDISON SCHOOL OF THE ARTS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2021 and 2020

NOTE 8 - LIQUIDITY

The School's financial assets include cash and grants receivable. Following is a schedule of financial assets and the ability thereof to meet cash needs as of June 30:

	<u>2021</u>	<u>2020</u>
Financial assets	\$ 950,149	\$ 935,398
Less: financial assets unavailable within one year due to purpose restrictions	<u>(16,572)</u>	<u>(18,963)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 933,577</u>	<u>\$ 916,435</u>

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Management of the School has categorized direct expenses as program services or management and general according to the underlying nature of the expense. In-kind expenses are allocated between program services and management and general in approximately equal proportion to the direct expenses.