

EDISON SCHOOL OF THE ARTS, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2022 and 2021



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Independent Auditors' Report

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

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of Edison School of the Arts, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Edison School of the Arts, Inc.'s ability to continue as a going concern for one year after the date the financial statements are issued.

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Edison School of the Arts, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Edison School of the Arts, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

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 \$3,826,287 and \$3,315,041 during the years ended June 30, 2022 and 2021, respectively. These in-kind transactions represent approximately 43% of total revenue and support for both years ended June 30, 2022 and 2021, and 45% and 43% of total expenses for the years ended June 30, 2022 and 2021, 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



Indianapolis, Indiana
November 22, 2022

EDISON SCHOOL OF THE ARTS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 773,309	\$ 746,136
Grants receivable	<u>407,656</u>	<u>204,013</u>
<i>Total current assets</i>	<u>1,180,965</u>	<u>950,149</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	142,668	142,668
Textbooks	64,423	64,423
Less: accumulated depreciation	<u>(152,998)</u>	<u>(129,408)</u>
<i>Property and equipment, net</i>	<u>54,093</u>	<u>77,683</u>
TOTAL ASSETS	<u>\$ 1,235,058</u>	<u>\$ 1,027,832</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 164,022</u>	<u>\$ 275,191</u>
NET ASSETS		
Without donor restrictions	1,056,653	736,069
With donor restrictions	<u>14,383</u>	<u>16,572</u>
<i>Total net assets</i>	<u>1,071,036</u>	<u>752,641</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,235,058</u>	<u>\$ 1,027,832</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, 2022 and 2021

	<u>2022</u>			<u>2021</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	\$ 3,688,774	\$ -	\$ 3,688,774	\$ 3,536,634	\$ -	\$ 3,536,634
In-kind contributions from IPS	3,826,287	-	3,826,287	3,315,041	-	3,315,041
Grants	1,153,681	-	1,153,681	698,627	-	698,627
Contributions	5,773	-	5,773	16,580	-	16,580
Interest income	393	-	393	351	-	351
Other income	178,477	-	178,477	83,041	-	83,041
Net assets released from restrictions	<u>2,189</u>	<u>(2,189)</u>	<u>-</u>	<u>2,391</u>	<u>(2,391)</u>	<u>-</u>
<i>Total revenue and support</i>	<u>8,855,574</u>	<u>(2,189)</u>	<u>8,853,385</u>	<u>7,652,665</u>	<u>(2,391) -</u>	<u>7,650,274</u>
EXPENSES						
Program services	7,499,011	-	7,499,011	6,757,068	-	6,757,068
Management and general	<u>1,035,979</u>	<u>-</u>	<u>1,035,979</u>	<u>918,831</u>	<u>-</u>	<u>918,831</u>
<i>Total expenses</i>	<u>8,534,990</u>	<u>-</u>	<u>8,534,990</u>	<u>7,675,899</u>	<u>-</u>	<u>7,675,899</u>
CHANGE IN NET ASSETS	320,584	(2,189)	318,395	(23,234)	(2,391)	(25,625)
NET ASSETS, BEGINNING 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>
NET ASSETS, END OF YEAR	<u>\$ 1,056,653</u>	<u>\$ 14,383</u>	<u>\$ 1,071,036</u>	<u>\$ 736,069</u>	<u>\$ 16,572</u>	<u>\$ 752,641</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, 2022 and 2021

	<u>2022</u>			<u>2021</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	\$ 1,735,560	\$ -	\$ 1,735,560	\$ 1,658,359	\$ -	\$ 1,658,359
Student transportation	755,401	-	755,401	673,129	-	673,129
Food services	567,444	-	567,444	306,099	-	306,099
Special education personnel	440,660	-	440,660	381,807	-	381,807
General education	241,875	-	241,875	222,748	-	222,748
Security services	-	85,347	85,347	-	72,899	72,899
<i>Total in-kind expenses</i>	<u>3,740,940</u>	<u>85,347</u>	<u>3,826,287</u>	<u>3,242,142</u>	<u>72,899</u>	<u>3,315,041</u>
Direct expenses:						
Salaries and wages	2,662,172	624,160	3,286,332	2,455,394	550,256	3,005,650
Employee benefits	765,180	179,400	944,580	675,719	148,329	824,048
Supplies	146,041	28,273	174,314	135,605	14,749	150,354
Professional services	44,867	118,221	163,088	97,067	111,219	208,286
School events	44,879	-	44,879	25,797	-	25,797
Staff development	44,015	-	44,015	32,692	-	32,692
Insurance	26,585	-	26,585	36,970	-	36,970
Depreciation	23,590	-	23,590	55,307	-	55,307
Advertising	-	578	578	-	822	822
Other	742	-	742	375	20,557	20,932
<i>Total direct expenses</i>	<u>3,758,071</u>	<u>950,632</u>	<u>4,708,703</u>	<u>3,514,926</u>	<u>845,932</u>	<u>4,360,858</u>
<i>Total functional expenses</i>	<u>\$ 7,499,011</u>	<u>\$ 1,035,979</u>	<u>\$ 8,534,990</u>	<u>\$ 6,757,068</u>	<u>\$ 918,831</u>	<u>\$ 7,675,899</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 318,395	\$ (25,625)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	23,590	55,307
Changes in certain assets and liabilities:		
Grants receivable	(203,643)	(195,006)
Prepaid expenses	-	35,511
Accounts payable and accrued expenses	(111,169)	13,925
Refundable advances	-	(20,000)
	27,173	(135,888)
<i>Net cash provided by (used in) operating activities</i>	27,173	(135,888)
INVESTING ACTIVITIES		
Purchases of property and equipment	-	(44,367)
NET CHANGE IN CASH	27,173	(180,255)
CASH, BEGINNING OF YEAR	746,136	926,391
CASH, END OF YEAR	\$ 773,309	\$ 746,136
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Prepaid property and equipment acquisitions	\$ -	\$ 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, 2022 and 2021

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, 2027 and is renewable thereafter by mutual consent. The School served approximately 615 students in grades kindergarten through eighth during the 2021-2022 school year (620 students in the 2020-2021 school year).

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, special education and general personnel, 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 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, 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, 2022 and 2021

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, 2022 and 2021.

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, 2022 and 2021, 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. Tax years ended after June 30, 2018 are open to audit for both federal and state purposes.

Reclassifications – Certain reclassifications have been made to the statements of change in net assets and functional expenses for the year ended June 30, 2021 to conform to the year ended June 30, 2022 presentation. There is no effect to previously reported net assets as of June 30, 2021.

Subsequent Events – The School evaluated subsequent events through November 22, 2022, 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, 2022 and 2021

NOTE 2 - REVENUE RECOGNITION

Revenue Recognition Policy – As discussed 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 significant portion of the School’s revenue is the product of cost reimbursement grants. Therefore, 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 change in net assets.

NOTE 3 - VALUATION OF IN-KIND SERVICES

Effective July 1, 2021, the School adopted ASU No. 2020-07 *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. The amendments in this update are required to be applied retrospectively to each prior reporting period presented. The School has applied the provisions of this ASU to the June 30, 2022 and 2021 financial statements. There was no material impact to the financial statements. The only in-kind contributions received by the School are from IPS and are disaggregated on the statements of activities and change in net assets and there are no restrictions set on these amounts.

The School recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$3,826,287 and \$3,315,041 during the years ended June 30, 2022 and 2021, respectively. These in-kind transactions represent approximately 43% of total revenue and support for both years ended June 30, 2022 and 2021, and 45% and 43% of total expenses for the years ended June 30, 2022 and 2021, 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.

EDISON SCHOOL OF THE ARTS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2022 and 2021

NOTE 4 - 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, 2022 and 2021. 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 \$14,383 and \$16,572 as of June 30, 2022 and 2021, respectively. During the years ended June 30, 2022 and 2021, \$2,189 and \$2,391, respectively, were released from restrictions due to the accomplishment of the purpose restriction.

NOTE 5 - 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 5.5% of compensation for eligible teaching personnel to TRF during both years ended June 30, 2022 and 2021, and 11.2% for other employees to PERF during both years ended June 30, 2022 and 2021. 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, 2021 (the latest year reported), TRF and PERF were approximately 100% and 92% funded, respectively.

Total contributions to INPRS for TRF and PERF were \$268,475 and \$211,444 during the years ended June 30, 2022 and 2021, respectively.

NOTE 6 - 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, 2022 and 2021 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, 2022 and 2021

NOTE 7 - 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>2022</u>	<u>2021</u>
Financial assets	\$ 1,180,965	\$ 950,149
Less: financial assets unavailable within one year due to purpose restrictions	<u>(14,383)</u>	<u>(16,572)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,166,582</u>	\$ <u>933,577</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 8 - 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.