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# **Innovation Charter High School**

## **Independent Auditor's Reports and Financial Statements**

June 30, 2023 and 2022

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## Independent Auditor's Report

Board of Trustees  
Innovation Charter High School  
New York, New York

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the financial statements of Innovation Charter High School, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Innovation Charter High School as of June 30, 2023 and 2022, and the changes in its net assets and its 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Innovation Charter High School, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that 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 the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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 Innovation Charter High School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's 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 auditor's 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 the 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 Innovation Charter High School'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 Innovation Charter High School'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 audit.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information within the statements of functional expenses is presented for purposes of additional analysis 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2023, on our consideration of Innovation Charter High School's 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 solely 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 effectiveness of Innovation Charter High School's 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 Innovation Charter High School's internal control over financial reporting and compliance.

**FORVIS, LLP**

**New York, New York  
October 26, 2023**

**Innovation Charter High School  
Statements of Financial Position  
June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,895,599	\$ 1,529,683
Grants and contracts receivable, net	560,709	984,374
Prepaid expenses and other current assets	13,756	16,379
	<hr/>	<hr/>
Total current assets	2,470,064	2,530,436
Cash reserves	71,089	71,053
Operating reserves – board-designated cash	2,825,980	2,550,077
Property and equipment, net	409,863	503,142
Right-of-use asset - operating lease	48,330	-
	<hr/>	<hr/>
Total assets	<u>\$ 5,825,326</u>	<u>\$ 5,654,708</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 133,512	\$ 134,218
Accrued salaries and related liabilities	526,101	607,116
Deferred revenue	-	2,181
	<hr/>	<hr/>
Total current liabilities	659,613	743,515
Operating lease liability	74,254	-
	<hr/>	<hr/>
Total liabilities	<u>733,867</u>	<u>743,515</u>
<b>Net Assets</b>		
Without donor restrictions		
Operating	2,265,479	2,361,066
Designated by the board for operating reserve	2,825,980	2,550,077
	<hr/>	<hr/>
Total net assets without donor restrictions	5,091,459	4,911,143
With donor restrictions	-	50
	<hr/>	<hr/>
Total net assets	<u>5,091,459</u>	<u>4,911,193</u>
Total liabilities and net assets	<u>\$ 5,825,326</u>	<u>\$ 5,654,708</u>

**Innovation Charter High School  
Statements of Activities  
Years Ended June 30, 2023 and 2022**

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues and Other Support</b>						
Per-pupil operating revenue – resident student enrollment	\$ 7,100,688	\$ -	\$ 7,100,688	\$ 6,968,406	\$ -	\$ 6,968,406
Per-pupil operating revenue – students with disabilities	2,130,795	-	2,130,795	2,163,657	-	2,163,657
Total state and local per-pupil operating revenues	9,231,483	-	9,231,483	9,132,063	-	9,132,063
Government grants and contracts – federal	925,623	-	925,623	1,479,214	-	1,479,214
Government grants and contracts – state	32,636	-	32,636	27,687	-	27,687
In-kind contributions	2,141,829	-	2,141,829	2,105,176	8,150	2,113,326
Interest	35,938	-	35,938	4,070	-	4,070
Contributions and other revenue	11,066	15,000	26,066	18,994	5,000	23,994
Net assets released from restrictions	15,050	(15,050)	-	31,600	(31,600)	-
Miscellaneous Income	3,219	-	3,219	6,203	-	6,203
Total revenues and other support	12,396,844	(50)	12,396,794	12,805,007	(18,450)	12,786,557
<b>Expenses</b>						
Program services						
General education	7,706,707	-	7,706,707	7,691,358	-	7,691,358
Special education	3,260,384	-	3,260,384	2,952,723	-	2,952,723
Total program services	10,967,091	-	10,967,091	10,644,081	-	10,644,081
Supporting services						
Management and general	1,249,437	-	1,249,437	1,430,945	-	1,430,945
Fundraising	-	-	-	8,317	-	8,317
Total supporting services	1,249,437	-	1,249,437	1,439,262	-	1,439,262
Total expenses	12,216,528	-	12,216,528	12,083,343	-	12,083,343
<b>Change in Net Assets</b>	180,316	(50)	180,266	721,664	(18,450)	703,214
<b>Net Assets Without Donor Restrictions, Beginning of Year</b>	4,911,143	50	4,911,193	4,189,479	18,500	4,207,979
<b>Net Assets Without Donor Restrictions, End of Year</b>	\$ 5,091,459	\$ -	\$ 5,091,459	\$ 4,911,143	\$ 50	\$ 4,911,193

**Innovation Charter High School  
Statement of Functional Expenses  
Year Ended June 30, 2023**

	2023							
	No. of Positions*	Program Services			Supporting Services			
		General Education	Special Education	Total	Management and General	Fundraising	Total	Total
<b>Personnel Service Costs</b>								
Instructional personnel	51	\$ 3,720,634	\$ 1,209,876	\$ 4,930,510	\$ 9,759	\$ -	\$ 9,759	\$ 4,940,269
Non-instructional personnel	4	25,098	10,770	35,868	115,570	-	115,570	151,438
Administrative personnel	17	742,871	635,721	1,378,592	505,816	-	505,816	1,884,408
<b>Total salaries and staff</b>	<b>72</b>	<b>4,488,603</b>	<b>1,856,367</b>	<b>6,344,970</b>	<b>631,145</b>	<b>-</b>	<b>631,145</b>	<b>6,976,115</b>
Payroll taxes and employee benefits		963,331	402,036	1,365,367	135,402	-	135,402	1,500,769
Retirement expense		150,779	62,926	213,705	21,193	-	21,193	234,898
Audit fees		-	-	-	42,682	-	42,682	42,682
Professional fees		145,722	88,725	234,447	109,740	-	109,740	344,187
Curriculum and classroom		114,945	61,677	176,622	-	-	-	176,622
Student services		142,559	76,495	219,054	-	-	-	219,054
Staff development		38,071	15,889	53,960	5,351	-	5,351	59,311
Office expense		32,870	13,718	46,588	77,421	-	77,421	124,009
Insurance		48,689	20,320	69,009	6,843	-	6,843	75,852
Marketing and recruiting		44,240	20,823	65,063	3,640	-	3,640	68,703
Information technology		48,832	20,380	69,212	6,863	-	6,863	76,075
Non-capitalized equipment and furnishings		4,986	2,081	7,067	701	-	701	7,768
Repairs and maintenance		8,456	3,529	11,985	1,188	-	1,188	13,173
In-kind rent		1,374,822	573,767	1,948,589	193,240	-	193,240	2,141,829
Depreciation and amortization		99,802	41,651	141,453	14,028	-	14,028	155,481
<b>Total expenses</b>		<b>\$ 7,706,707</b>	<b>\$ 3,260,384</b>	<b>\$ 10,967,091</b>	<b>\$ 1,249,437</b>	<b>\$ -</b>	<b>\$ 1,249,437</b>	<b>\$ 12,216,528</b>

\* Supplementary information



**Innovation Charter High School  
Statement of Functional Expenses  
Year Ended June 30, 2022**

	2022							
	No. of Positions*	Program Services			Supporting Services			
		General Education	Special Education	Total	Management and General	Fundraising	Total	Total
<b>Personnel Service Costs</b>								
Instructional personnel	58	\$ 3,752,947	\$ 1,118,084	\$ 4,871,031	\$ 8,518	\$ -	\$ 8,518	\$ 4,879,549
Non-instructional personnel	4	38,352	8,376	46,728	109,917	-	109,917	156,645
Administrative personnel	17	706,304	569,640	1,275,944	652,788	5,106	657,894	1,933,838
<b>Total salaries and staff</b>	<b>79</b>	<b>4,497,603</b>	<b>1,696,100</b>	<b>6,193,703</b>	<b>771,223</b>	<b>5,106</b>	<b>776,329</b>	<b>6,970,032</b>
Payroll taxes and employee benefits		942,189	353,690	1,295,879	162,404	1,087	163,491	1,459,370
Retirement expense		151,566	56,897	208,463	26,125	175	26,300	234,763
Audit fees		-	-	-	48,869	-	48,869	48,869
Professional fees		167,092	92,074	259,166	129,147	25	129,172	388,338
Curriculum and classroom		125,761	60,593	186,354	-	-	-	186,354
Student services		121,520	58,549	180,069	-	-	-	180,069
Staff development		26,922	10,107	37,029	4,641	30	4,671	41,700
Office expense		31,110	11,678	42,788	11,109	36	11,145	53,933
Insurance		45,151	16,949	62,100	7,783	52	7,835	69,935
Marketing and recruiting		61,407	25,103	86,510	7,465	49	7,514	94,024
Information technology		64,741	24,303	89,044	11,159	75	11,234	100,278
Non-capitalized equipment and furnishings		8,339	3,131	11,470	1,437	10	1,447	12,917
Repairs and maintenance		13,461	5,052	18,513	2,320	16	2,336	20,849
In-kind rent		1,348,030	506,038	1,854,068	232,359	1,556	233,915	2,087,983
Depreciation and amortization		86,466	32,459	118,925	14,904	100	15,004	133,929
<b>Total expenses</b>		<b>\$ 7,691,358</b>	<b>\$ 2,952,723</b>	<b>\$ 10,644,081</b>	<b>\$ 1,430,945</b>	<b>\$ 8,317</b>	<b>\$ 1,439,262</b>	<b>\$ 12,083,343</b>

\* Supplementary information

**Innovation Charter High School  
Statements of Cash Flows  
Years Ended June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
<b>Operating Activities</b>		
Change in net assets	\$ 180,266	\$ 703,214
Items not requiring operating cash flows		
Bad debt expense	49,950	-
Depreciation and amortization	155,481	133,929
Noncash operating lease expense	23,086	-
Changes in		
Grants and contracts receivable	373,715	(635,235)
Prepaid expenses and other current assets	2,623	15,459
Accounts payable and accrued expenses	(706)	(48,118)
Accrued salaries and related liabilities	(81,015)	94,070
Deferred revenue	(2,181)	(237)
Change in lease liability	2,838	-
	<u>704,057</u>	<u>263,082</u>
<b>Investing Activities</b>		
Purchase of property and equipment	<u>(62,202)</u>	<u>(410,422)</u>
	<u>(62,202)</u>	<u>(410,422)</u>
<b>Change in Cash and Cash Equivalents and Restricted Cash</b>	641,855	(147,340)
<b>Cash and Cash Equivalents and Restricted Cash, Beginning of Year</b>	<u>4,150,813</u>	<u>4,298,153</u>
<b>Cash and Cash Equivalents and Restricted Cash, End of Year</b>	<u>\$ 4,792,668</u>	<u>\$ 4,150,813</u>
<b>Cash and Cash Equivalents and Restricted Cash Consist of:</b>		
Cash and cash equivalents	\$ 1,895,599	\$ 1,529,683
Cash reserves	71,089	71,053
Operating reserves – board-designated cash	<u>2,825,980</u>	<u>2,550,077</u>
	<u>\$ 4,792,668</u>	<u>\$ 4,150,813</u>

## **Note 1. Nature of Operations and Summary of Significant Accounting Policies**

### ***Nature of Operations***

Innovation Charter High School (the School) is an educational corporation that operates as a charter school in the Borough of Manhattan, New York City. On December 15, 2009, the Board of Regents and the Board of Trustees of the University of the State of New York, for and on behalf of the State Education Department, granted the School a charter to operate grades 9-12. On March 4, 2021, the School's charter was renewed by the New York State Board of Regents through June 30, 2026. The School's mission is to develop leadership through innovation. Student innovators achieve academic excellence by setting self-created goals within a three-tiered educational model of core classroom instruction, portfolio-based annual individual projects, and hands-on, experimental learning. During fiscal years 2023 and 2022, the School operated classes for 405 and 413 full-time equivalent general instruction students, and 141 and 134 special education students, respectively. The School is supported primarily by state and local per-pupil revenues.

In the spring of 2022, the School returned to a fully in-person learning model. Students with COVID-19 were given learning packets and access to School instructors and counselors via videoconference and chat technology. Notwithstanding the challenges posed by COVID-19, the School's operations, attendance, enrollment, and graduation levels were maintained at or near the same levels that existed prior to the pandemic.

### ***Use of Estimates***

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 revenues, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### ***Cash Equivalents and Restricted Cash***

The School considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2023 and 2022, cash equivalents consisted primarily of money market accounts.

Board-designated operating reserves and deposit accounts restricted externally by regulators are considered to be restricted cash.

At June 30, 2023, the School's cash accounts exceeded federally insured limits by approximately \$4,500,000.

### ***Cash Reserves***

The School maintains cash in an escrow account, pursuant to its Charter Agreement, to pay off expenses in the event of dissolution of the School.

**Innovation Charter High School  
Notes to Financial Statements  
June 30, 2023 and 2022**

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***Grants and Contracts Receivable***

Revenues from government grants and contracts to which the School is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors, which are not based on student enrollment, and are recorded when related expenditures are incurred by the School. Receivables are recorded when the revenue is earned. Bad debt is charged if the receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year-end. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. As of June 30, 2023, the School had an allowance for doubtful accounts of \$49,950. As of June 30, 2022, the School had no allowance for doubtful accounts.

***Property and Equipment***

Property and equipment acquisitions are stated at cost, less accumulated depreciation, and amortization. Property and equipment acquisitions with a cost of \$1,000 and an estimated useful life of more than one year are capitalized. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Furniture and fixtures	5-10 years
Equipment	3-5 years
Leasehold improvements	10 years
Website development	5 years

***Long-Lived Asset Impairment***

The School evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2023 and 2022.

***Net Assets***

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or grantor restrictions. The governing board has designated, from net assets without donor or grantor restrictions, net assets for an operating reserve.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

***State and Local Per-Pupil Revenue***

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

**Innovation Charter High School  
Notes to Financial Statements  
June 30, 2023 and 2022**

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**Contributions**

Contributions are provided to the School either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the School overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

**Government Grants**

Support funded by grants is recognized as the School meets the conditions prescribed by the grant agreement, performs the contracted services, or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

**Income Taxes**

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the School is subject to federal income tax on any unrelated business taxable income.

The School files tax returns in the U.S. federal jurisdiction.

**Innovation Charter High School**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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**Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program services, management and general, and fundraising categories based on actual expenditures as well as cost allocations based on time spent by personnel in the functional areas.

**Note 2. Property and Equipment**

Property and equipment at June 30, 2023 and 2022 consists of:

	<u>2023</u>	<u>2022</u>
Furniture and fixtures	\$ 151,159	\$ 151,159
Equipment	917,698	873,256
Leasehold improvements	186,782	169,022
Website development	<u>114,525</u>	<u>114,525</u>
	1,370,164	1,307,962
Less accumulated depreciation and amortization	<u>(960,301)</u>	<u>(804,820)</u>
	<u>\$ 409,863</u>	<u>\$ 503,142</u>

**Note 3. Leases**

**Change in Accounting Principle**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The School adopted Topic 842 on July 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The School elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The School has lease agreements with nonlease components that relate to the lease components. The School elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, the School elected to keep short-term leases with an initial term of 12 months or less off the statement of financial position. The School did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2022.

**Innovation Charter High School  
Notes to Financial Statements  
June 30, 2023 and 2022**

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The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$71,416, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect the statements of activities or cash flows.

***Accounting Policies***

The School determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The School determines lease classification as operating or finance at the lease commencement date.

The School combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single lease component in calculating the ROU assets and lease liabilities.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The School has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the School is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The School has elected not to record leases with an initial term of 12 months or less on the statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

***Nature of Leases***

The School has entered into the following lease arrangements:

***Operating Leases***

The School has leases for office equipment that expire in various years through 2027. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

***All Leases***

The School has no material related-party leases.

The School's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

**Innovation Charter High School  
Notes to Financial Statements  
June 30, 2023 and 2022**

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**Quantitative Disclosures**

The lease cost and other required information for the year ended June 30, 2023 are:

Lease cost	
Operating lease cost	\$ 25,452
Total lease cost	<u>\$ 25,452</u>
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 31,933
Cash incentive received on lease agreement	
Operating cash flows from operating leases	\$ (32,405)
Weighted-average remaining lease term	
Operating leases	3.45 years
Weighted-average discount rate	
Operating leases	2.88%

Future minimum lease payments and reconciliation to the statement of financial position at June 30, 2023 are as follows:

	<b>Operating Leases</b>
	<hr/>
2024	\$ 29,311
2025	16,200
2026	16,200
2027	16,200
	<hr/>
Total future undiscounted lease payments	77,911
Less imputed interest	<u>(3,657)</u>
Lease liabilities	<u>\$ 74,254</u>

**Note 4. Net Assets With Donor Restrictions**

Net assets with donor restrictions at June 30, 2023 and 2022 are available for the following purposes or periods:

	<b>2023</b>	<b>2022</b>
	<hr/>	<hr/>
Subject to expenditure for specific purpose		
Earthwatch program	<u>\$ -</u>	<u>\$ 50</u>



**Innovation Charter High School  
Notes to Financial Statements  
June 30, 2023 and 2022**

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***Net Assets Released From Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions		
COVID 19 - needs	\$ -	\$ 3,500
Earthwatch program	50	23,150
Prize money for students	15,000	4,950
	<u>\$ 15,050</u>	<u>\$ 31,600</u>

**Note 5. Contributed Nonfinancial Assets**

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the statements of activities included:

	<u>2023</u>	<u>2022</u>
Use of building	\$ 2,141,829	\$ 2,087,982
Clothing	-	17,194
Student field trip	-	8,150
	<u>\$ 2,141,829</u>	<u>\$ 2,113,326</u>

***Use of Building***

The School has been provided space in a building owned by the New York City Department of Education (NYCDOE) at no charge to the School. The space is provided to the School in a building utilization plan provided by NYCDOE. The plan provides approximately 19,755 square feet or 49% of the building's educational space to the School. An additional allocation of approximately 4,400 square feet of the facility's shared auditorium and cafeteria space has been calculated based on the School's share of the facility enrollment target. For schools that rent outside space, NYCDOE reimburses them up to 30% of their general education funding to cover rental expenses. The contributed building was used for the general education and special education programs, as well as general and administrative and fundraising activities.

***Other Contributed Items***

The fair value of contributed clothing and student field trip are estimated on the basis of estimates of wholesale values that would be received for purchasing similar items in the United States and are used for the general education and special education programs.

**Innovation Charter High School  
Notes to Financial Statements  
June 30, 2023 and 2022**

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**Note 6. Contingencies and Concentrations**

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

Substantially all of the School's operating revenue is paid by the New York State Education Department.

In addition, substantially all grants and contracts receivable due at year-end were all due from the New York State Education Department.

**Note 7. Defined Contribution Pension Plan**

The School has a 401(k) defined contribution retirement plan covering substantially all employees. The School provides a matching contribution of up to 5% of employee contributions. Pension expense was \$234,898 and \$234,763 for the years ended June 30, 2023 and 2022, respectively.

**Note 8. Liquidity and Availability**

The School's financial assets available within one year of the date of the statements of financial position expenditures as of June 30, 2023 and 2022 are:

	<u>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents	\$ 1,895,599	\$ 1,529,683
Grants and contracts receivable	560,709	984,374
Operating reserves – board-designated cash	<u>2,825,980</u>	<u>2,550,077</u>
 Total financial assets	 5,282,288	 5,064,134
 Less		
Donor-imposed restrictions		
Donor-restricted funds	-	50
 Internal designations		
Operating reserves – board-designated cash	<u>2,825,980</u>	<u>2,550,077</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 2,456,308</u>	 <u>\$ 2,514,007</u>

**Innovation Charter High School**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

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The financial assets of the School without donor restrictions or restricted by state laws are available for general expenditures. As part of liquidity management, the School invests cash in excess of daily requirements in cash and cash equivalents. Although the School does not intend to spend from its net assets other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts could be made available if necessary. During the years ended June 30, 2023 and 2022, the level of liquidity and reserves was managed within the policy requirements.

**Note 9. Grant Reimbursements Receivable and Future Commitments**

Government grants received are conditional upon incurring allowable expenditures as specified in the contract. The School receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the School are prepared on the accrual basis, all earned portions of the grants not yet received as of June 30, 2023, have been recorded as receivables. The following are the grant commitments that extend beyond June 30, 2023:

<u>Grant</u>	<u>Term</u>	<u>Grant Amount</u>	<u>Earned Through 2023</u>	<u>Funding Available</u>
Government grants	Various through 2024	\$ 1,140,692	\$ 934,733	\$ 205,959

**Note 10. Subsequent Events**

Subsequent events have been evaluated through October 26, 2023, which is the date the financial statements were available to be issued.

## **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***

### **Independent Auditor's Report**

Board of Trustees  
Innovation Charter High School  
New York, New York

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 (*Government Auditing Standards*), the financial statements of Innovation Charter High School, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, 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 26, 2023.

### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Innovation Charter High School's internal control over financial reporting (internal control) as a basis for designing 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 Innovation Charter High School's internal control. Accordingly, we do not express an opinion on the effectiveness of Innovation Charter High 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 entity'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. 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 or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Innovation Charter High 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**FORVIS,LLP**

**New York, New York  
October 26, 2023**

**Innovation Charter High School  
Schedule of Findings and Responses  
Year Ended June 30, 2023**

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***Findings Required to be Reported by Government Auditing Standards***

No matters are reportable.

**Innovation Charter High School  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2023**

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<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
	No matters are reportable.	