

INTERDISTRICT SCHOOL FOR ARTS AND COMMUNICATION, INC.
Financial Statements
June 30, 2021
With Comparative Totals
for the Year Ended
June 30, 2020

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Interdistrict School for Arts and Communication, Inc.
New London, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of Interdistrict School for Arts and Communication, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. 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 Interdistrict School for Arts and Communication, Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information from Prior Period Financial Statements

The financial statements of Interdistrict School for Arts and Communication, Inc. as of June 30, 2020 were audited by other auditors whose report dated December 14, 2020 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Seward and Monde

North Haven, Connecticut
October 19, 2021

INTERDISTRICT SCHOOL FOR ARTS AND COMMUNICATION, INC.
STATEMENT of FINANCIAL POSITION
June 30, 2021
(with comparative totals for June 30, 2020)

	2021	2020
ASSETS		
Cash	\$ 1,275,003	\$ 886,322
Grants receivable	4,860	111,788
Other receivables	402,838	208,929
Prepaid expenses	4,329	44,944
Property and equipment, net	5,202,470	5,144,854
Total assets	\$ 6,889,500	\$ 6,396,837
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 91,517	\$ 68,244
Accrued expenses	255,043	190,946
Refundable advances	568,913	197,507
Mortgage payable	498,977	499,172
Total liabilities	1,414,450	955,869
Net Assets		
Without donor restrictions	5,460,959	5,426,109
With donor restrictions	14,091	14,859
Total net assets	5,475,050	5,440,968
Total liabilities and net assets	\$ 6,889,500	\$ 6,396,837

See notes to financial statements.

INTERDISTRICT SCHOOL FOR ARTS AND COMMUNICATION, INC.
STATEMENT of ACTIVITIES
For the year ended June 30, 2021
(with summarized financial information for the year ended June 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues and other support:				
Federal and state financial assistance	\$ 3,526,085	\$ -	\$ 3,526,085	\$ 3,780,392
Special education	956,165	-	956,165	705,262
Contributions	3,943	-	3,943	18,589
Student activities	753	-	753	16,539
Interest income	4,854	-	4,854	7,397
Miscellaneous	4,579	-	4,579	19,402
Net assets released from restrictions	768	(768)	-	-
Total revenues and other support	<u>4,497,147</u>	<u>(768)</u>	<u>4,496,379</u>	<u>4,547,581</u>
Expenses:				
Education	3,769,470	-	3,769,470	3,837,599
General and administrative	692,827	-	692,827	501,516
Development	-	-	-	32,553
Total expenses	<u>4,462,297</u>	<u>-</u>	<u>4,462,297</u>	<u>4,371,668</u>
Change in net assets	34,850	(768)	34,082	175,913
Net assets, beginning of year	<u>5,426,109</u>	<u>14,859</u>	<u>5,440,968</u>	<u>5,265,055</u>
Net assets, end of year	<u>\$ 5,460,959</u>	<u>\$ 14,091</u>	<u>\$ 5,475,050</u>	<u>\$ 5,440,968</u>

See notes to financial statements.

INTERDISTRICT SCHOOL FOR ARTS AND COMMUNICATION, INC.
STATEMENT of FUNCTIONAL EXPENSES
For the year ended June 30, 2021
(with comparative financial information for the year ended June 30, 2020)

	2021			2020
	Education	General and Administrative	Total	
Salaries	\$ 2,438,133	\$ 439,230	\$ 2,877,363	\$ 2,783,117
Fringe benefits and payroll taxes	343,384	49,390	392,774	536,402
Other purchased services	144,096	134,984	279,080	254,935
Occupancy	192,178	12,267	204,445	147,405
Insurance	21,354	4,942	26,296	28,547
Supplies and materials	326,591	12,994	339,585	277,123
Marketing and recruitment	-	4,265	4,265	18,251
Technology	54,716	-	54,716	45,455
Office expense	18,354	16,325	34,679	35,510
Depreciation	193,208	12,332	205,540	197,395
Other	-	6,098	6,098	14,345
Student activities	4,204	-	4,204	8,580
Interest	33,252	-	33,252	24,603
	<u>\$ 3,769,470</u>	<u>\$ 692,827</u>	<u>\$ 4,462,297</u>	<u>\$ 4,371,668</u>

See notes to financial statements.

INTERDISTRICT SCHOOL FOR ARTS AND COMMUNICATION, INC.
STATEMENT of CASH FLOWS
For the year ended June 30, 2021
(with comparative financial information for the year ended June 30, 2020)

	2021	2020
Cash Flows from Operating Activities:		
Change in net assets	\$ 34,082	\$ 175,913
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	205,540	197,395
Bad debt expense	95	15
(Increase) decrease in assets:		
Grants receivable	106,928	(94,326)
Other receivables	(194,004)	(126,484)
Prepaid expenses	40,615	(15,241)
Increase (decrease) in liabilities:		
Accounts payable	23,273	(49,922)
Accrued expenses	64,097	11,488
Refundable advances	371,406	(356,928)
	652,032	(258,090)
Net cash provided (used) by operating activities		
Cash Flows from Investing Activities:		
Purchase of property, plant and equipment	(263,156)	(94,603)
	(263,156)	(94,603)
Net cash used by investing activities		
Cash Flows from Financing Activities:		
Proceeds from mortgage payable	500,000	-
Principal payments on mortgage payable	(500,195)	(31,752)
	(195)	(31,752)
Net cash used by investing activities		
Net change in cash	388,681	(384,445)
Cash, beginning of year	886,322	1,270,767
Cash, end of year	\$ 1,275,003	\$ 886,322
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 33,252	\$ 24,196

See notes to financial statements.

INTERDISTRICT SCHOOL FOR ARTS AND COMMUNICATION, INC.
NOTES to FINANCIAL STATEMENTS
June 30, 2021
(with comparative financial information for the year ended June 30, 2020)

Note 1 - Organization and summary of significant accounting policies

Nature of operations

The Interdistrict School for Arts and Communication, Inc. (the "School") is a nonprofit corporation engaged in all activities pertinent to operating a state-chartered public middle school for Grades 6 to 8. The School, located in New London, Connecticut (the "State"), opened in the fall of 1997.

The School features an academically rigorous curriculum whose various disciplines are integrated through the arts - both visual and performing - and through modern communication skills. The curriculum supports a learning community that is multicultural. The School is run by its Board of Directors and a Management Team. The Board of Directors and Management Team are educators, arts and communication experts, financial experts, community leaders, teachers, parents and students.

The School's activities began with its incorporation on February 4, 1997.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Net assets without donor restrictions represent available resources other than donor-restricted contributions. Net assets without donor restrictions may be designated for specific purposes by the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Net assets with donor restrictions are subject to donor (or certain grantor) imposed restrictions which are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The School does not have any donor-imposed restrictions that are perpetual in nature.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses recognized on investments and other assets or liabilities, if any, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period have been reported as support without donor restrictions in the statement of activities.

Statement of cash flows

For purposes of reporting cash flows, the School considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at June 30, 2021 and 2020. Additionally, there was no restricted cash balances at June 30, 2021 and 2020.

Grants and other receivables

Grants receivable represent amounts owed to the School based on exchange transactions. The remaining receivables include billings to local school districts for special education services and billings to the State of Connecticut for May and June nutrition programs. Grants and other receivables are stated at the amount management expects to collect from outstanding balances. This estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information. The carrying value of grants receivable approximates fair value. The School has determined that no allowance for uncollectible accounts for receivables is necessary as of June 30, 2021 and 2020.

Revenue recognition

Revenue from federal, state and local government grants and contracts are considered exchange transactions and are recorded by the School when the performance obligation is met. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances in the accompanying statement of financial position. Receivables are recognized to the extent costs have been incurred, but not reimbursed.

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

Contributions are recognized by the School when a donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor, but whose restrictions are met in the same period, are reported as increases to net assets without restrictions. All other donor-restricted contributions are reported as increases to net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions are considered conditional

when the underlying agreement includes a performance barrier and a right of return to the promised assets exists. Conditional contributions are not recognized in the financial statements until the performance barrier and a right of return have been overcome. As of June 30, 2021 and 2020, the School had no conditional contributions.

Other revenues are recognized at the time of sale or when the performance obligation is satisfied.

Contributed services received from Board Members and volunteers are not recorded in the financial statements since these services do not meet the criteria for recognition as contributed services.

Income taxes

The School is classified by the Internal Revenue Service as exempt from income tax under Section 501(a) of the Internal Revenue Code as a public education school described in Section 501(c)(3).

The School has no unrecognized tax benefits at June 30, 2021 or 2020. The School's Federal and State income tax returns prior to fiscal year 2017 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If applicable, the School would recognize interest and penalties associated with tax matters as part of management and general expenses in the statement of activities and include accrued interest and penalties in accrued liabilities in the statement of financial position. The School did not recognize any interest or penalties associated with tax matters for the years ended June 30, 2021 and 2020.

Property and equipment

The School follows the practice of reviewing expenditures for equipment in excess of \$2,500 and construction expense of \$5,000 for items to be capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives as follows:

Building and improvements	40 years
Furniture and equipment	3 - 10 years

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The School reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Long-lived assets

The School recognizes an impairment loss when the carrying amount of a long-lived asset exceeds its fair value. In the event that facts and circumstance indicate that the carrying amounts of long-lived assets may be impaired, an evaluation of recoverability would be performed. The evaluation process consists of comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down is required. If the review indicates that the asset will not be recoverable, the carrying value of the asset would be reduced to its estimated realizable value. There was no impairment loss recognized for the years ended June 30, 2021 and 2020.

Functional allocation of expenses

The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's assessment. Health and retirement benefits and payroll taxes are allocated to programs based on the percentage of salary expense of the program to total salary expense. Expenses that can be identified directly with either the program or supporting service are charged to that function accordingly.

Concentrations

The School maintains cash balances in one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation. From time to time, the School's balances may exceed these limits. The School limits its credit risk by selecting financial institutions considered to be highly creditworthy. The uninsured cash balance was \$1,133,346 and \$786,701 at June 30, 2021 and 2020, respectively.

The School receives a substantial portion of its support and revenue from the State Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

Prior year summarized information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. 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 for the year ended June 30, 2020, from which the summarized information was derived.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

Management has evaluated subsequent events through October 19, 2021, the date the financial statements were available to be issued.

Reclassifications

Certain 2020 amounts have been reclassified to conform with the 2021 presentation.

Note 2 - Liquidity and Availability of Financial Assets

The School regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. The following reflects the financial assets of the School as of June 30 available for general expenditures within one year of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	<u>2021</u>	<u>2020</u>
Cash	\$ 1,275,003	\$ 886,322
Grants receivable	4,860	111,788
Other receivables	<u>402,838</u>	<u>208,929</u>
Total financial assets	1,682,701	1,207,039
Less, amounts not available to be used within one year due to contractual or donor imposed restrictions:		
Net assets with donor restrictions	<u>(14,091)</u>	<u>(14,859)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,668,610</u>	<u>\$ 1,192,180</u>

Note 3 - Concentrations

Approximately 78% and 83% of the School's revenue for the years ended June 30, 2021 and 2020, respectively, were funded by Federal and State grants. This funding is subject to specific requirements.

Note 4 - Grants

The following grants were awarded and expended during the years ended June 30, 2021 and 2020:

1. A State enrollment-based foundation grant in the amount of \$2,736,510 and \$3,459,319 for the years ended June 30, 2021 and 2020, respectively, for the purposes of financing public education.
2. Various grants for the purpose of providing education programs.

Certain grants require the fulfillment of various conditions as set forth by the grantor. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although that is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms, the School has accommodated the objectives of the grantors to the provisions of the grants.

The School has recognized refundable advances in the statement of financial position related to unexpended State enrollment-based foundation grant funding in the amount of \$513,405 and \$144,914 at June 30, 2021 and 2020, respectively. The State allows a carryover of up to 10% of the total State enrollment-based foundation grant to the following year. As of June 30, 2021 and 2020, respectively, the School has a carryover of \$213,240 and \$-0- to be expended in the next fiscal year. The State allows for the creation of a reserve fund for capital purchase, equipment purchase or other approved projects through a set aside of up to 5% of the total State enrollment-based foundation grant. The School has a reserve fund of \$300,165 and \$144,914 at June 30, 2021 and 2020, respectively. The budgets for the years ended June 30, 2021 and 2020 do not anticipate the use of this reserve fund.

Note 5 - Pension plans

The School maintains a defined contribution pension plan which covers all eligible employees and allows employees to defer a portion of their income on a pre-tax basis. The School's contribution is discretionary and determined in accordance with collective bargaining agreements and/or employment agreements. Pension expense for the years ended June 30, 2021 and 2020 was \$5,186 and \$-0-, respectively.

Certain employees of the School are required to participate in a defined benefit plan established and administered by the Connecticut State Teachers' Retirement Board (the "TRB Plan"). The TRB Plan requires mandatory contributions by employees of 7.25% of their eligible annual compensation. The State of Connecticut provides the remaining funding of retirement benefits, and the School is not required to and does not contribute to the TRB Plan.

Note 6 - Property and equipment

The following is a summary of property and equipment at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 80,000	\$ 80,000
Building and improvements	7,012,130	6,815,467
Construction in progress	20,000	65,720
Furniture and equipment	<u>328,588</u>	<u>216,375</u>
	7,440,718	7,177,562
Less, Accumulated depreciation	<u>(2,238,248)</u>	<u>(2,032,708)</u>
Net property and equipment	<u>\$ 5,202,470</u>	<u>\$ 5,144,854</u>

Depreciation expense was \$205,540 and \$197,395 for the years ended June 30, 2021 and 2020, respectively.

Note 7 - Mortgage payable

Mortgage payable consists of a mortgage loan with an original balance of \$500,000 dated May 10, 2021 at June 30, 2021, and a mortgage loan with an original balance of \$1,500,000 dated August 7, 2012 at June 30, 2020. The loan at June 30, 2021 bears interest at 3.75% per annum, payable in monthly installments of principal and interest of \$2,586 through May 2036, at which time the loan provides for an interest rate adjustment and recalculation of the monthly payment. The new monthly payment then applies through the loan's maturity date of June 1, 2046 when the entire outstanding balance shall be due and payable in full. The loan at June 30, 2020 had an interest rate of 4.75%. The loan is secured by the School's property. Interest expense on the mortgage was \$33,252 and \$24,196 for the years ended June 30, 2021 and 2020, respectively.

The future scheduled maturities of long-term debt for the five years subsequent to June 30, 2021 and thereafter are approximately as follows:

2022	\$ 11,204
2023	12,700
2024	13,100
2025	13,700
2026	14,200
Thereafter	<u>434,073</u>
	<u>\$ 498,977</u>

Note 8 - Net assets with donor restrictions

Net assets with donor restrictions that are temporary in nature amounted to \$14,091 and \$14,859 at June 30, 2021 and 2020, respectfully, and are available for the acquisition of musical instruments.

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose of acquiring musical instruments amounted to \$768 at June 30, 2021.

Note 9 - Leasing

The Organization leases copiers under non-cancellable operating leases. Rent expense pertaining to these lease agreements was \$16,991 and \$15,936 for the years ended June 30, 2021 and 2020, respectively. The leases expire on April 18, 2023.

Future minimum lease payments at June 30, 2021 includes \$18,468 due in 2022 and \$15,601 due in 2023, the final year of the leases.

Note 10 - Risk management

The School is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; actions by employees, parents and natural disasters. The School maintains commercial insurance to protect itself from these risks.

Note 11 - Contingent Liabilities

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund because management does not believe that there are any liabilities to be recorded.

Note 12 - Risks and uncertainties

In early 2020, an outbreak of a novel strain of coronavirus emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of revenue and other material adverse effects to the School's financial position, results of operations, and cash flows. The School is not able to reliably estimate the length or severity of this outbreak and the related financial impact.

Substantially all of the School's teaching employees are covered by a collective bargaining agreement, which expires on June 30, 2025.