

InnovateEDU Inc and Subsidiary

Consolidated Financial Statements

June 30, 2023 and 2022

Independent Auditors' Report

Board of Directors InnovateEDU Inc and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of InnovateEDU Inc and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of InnovateEDU Inc and Subsidiary as of June 30, 2023 and 2022, and the changes in their net assets and their 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. 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 InnovateEDU Inc and Subsidiary 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.

Emphasis of Matter

As discussed in Note 1, InnovateEDU Inc signed an Agreement and Plan of Merger with EdTech Evidence Exchange, Inc. to merge into a single not-for-profit legal entity under InnovateEDU Inc, which will serve as the sole surviving corporation. The merger will be completed upon approval by the New York State Office of the Attorney General and filing of the Certificates of Merger with the respective states. A certificate of dissolution will also be filed for the EdTech Evidence Exchange, Inc. in all relevant states, and all financial assets will be transferred to the surviving corporation. Management expects the merger will be completed during the year ending June 30, 2024. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about InnovateEDU Inc and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 InnovateEDU Inc and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about InnovateEDU Inc and Subsidiary'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.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules of financial position, activities, and functional expenses as of and for the year ended June 30, 2023 on pages 19 through 22 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

PKF O'Connor Davies, LLP

Harrison, New York
January 12, 2024

InnovateEDU Inc and Subsidiary

Consolidated Statements of Financial Position

	June 30,	
	2023	2022
ASSETS		
Current Assets		
Cash	\$ 5,261,195	\$ 3,316,975
Grants and contracts receivable	385,834	1,702,520
Due from related party	-	236,547
Program service fee and other receivables	243,018	18,473
Prepaid expenses	1,714	1,100
Total Current Assets	5,891,761	5,275,615
Property and equipment, net	35,363	44,911
	\$ 5,927,124	\$ 5,320,526
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 128,744	\$ 53,660
Accrued payroll and payroll taxes	215,396	176,967
Due to related party	-	27,556
Refundable advances	105,788	236,671
Total Current Liabilities	449,928	494,854
Net Assets		
Without donor restrictions	2,484,750	1,500,509
With donor restrictions	2,992,446	3,325,163
Total Net Assets	5,477,196	4,825,672
	\$ 5,927,124	\$ 5,320,526

See notes to consolidated financial statements

InnovateEDU Inc and Subsidiary

Consolidated Statement of Activities Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Program service revenue	\$ 1,320,624	\$ -	\$ 1,320,624
Grants and contributions	928,017	1,751,320	2,679,337
State grant	233,483	-	233,483
City grant	486,267	-	486,267
Donated goods, services, and use of facilities	2,159,340	-	2,159,340
Other income	2,910	-	2,910
Net assets released from restrictions	<u>2,084,037</u>	<u>(2,084,037)</u>	<u>-</u>
Total Revenue and Support	<u>7,214,678</u>	<u>(332,717)</u>	<u>6,881,961</u>
EXPENSES			
Program services	5,416,277	-	5,416,277
Management and general	866,933	-	866,933
Fundraising	<u>61,862</u>	<u>-</u>	<u>61,862</u>
Total Expenses	<u>6,345,072</u>	<u>-</u>	<u>6,345,072</u>
Employee Retention Credit	<u>114,635</u>	<u>-</u>	<u>114,635</u>
Change in Net Assets	984,241	(332,717)	651,524
NET ASSETS			
Beginning of year	<u>1,500,509</u>	<u>3,325,163</u>	<u>4,825,672</u>
End of year	<u>\$ 2,484,750</u>	<u>\$ 2,992,446</u>	<u>\$ 5,477,196</u>

See notes to consolidated financial statements

InnovateEDU Inc and Subsidiary

Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Program service revenue	\$ 800,293	\$ -	\$ 800,293
Discounts	<u>(6,500)</u>	<u>-</u>	<u>(6,500)</u>
Net Program Service Revenue	793,793	-	793,793
Grants and contributions	21,450	3,748,059	3,769,509
State grant	52,929	-	52,929
City grant	448,653	-	448,653
Donated goods, services, and use of facilities	1,980,807	-	1,980,807
Other income	4,590	-	4,590
Net assets released from restrictions	<u>2,239,343</u>	<u>(2,239,343)</u>	<u>-</u>
Total Revenue and Support	<u>5,541,565</u>	<u>1,508,716</u>	<u>7,050,281</u>
EXPENSES			
Program services	4,893,579	-	4,893,579
Management and general	682,241	-	682,241
Fundraising	<u>69,070</u>	<u>-</u>	<u>69,070</u>
Total Expenses	<u>5,644,890</u>	<u>-</u>	<u>5,644,890</u>
Gain on forgiveness of Paycheck Protection Program loans	<u>599,757</u>	<u>-</u>	<u>599,757</u>
Change in Net Assets	496,432	1,508,716	2,005,148
NET ASSETS			
Beginning of year	<u>1,004,077</u>	<u>1,816,447</u>	<u>2,820,524</u>
End of year	<u>\$ 1,500,509</u>	<u>\$ 3,325,163</u>	<u>\$ 4,825,672</u>

InnovateEDU Inc and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 2,128,071	\$ 297,059	\$ 25,550	\$ 2,450,680
Payroll taxes and benefits	335,343	37,608	3,133	376,084
Consultants	428,595	48,157	4,816	481,568
Dues and subscriptions	-	81,230	-	81,230
Accounting/audit services	-	101,461	-	101,461
Legal services	-	17,768	-	17,768
Other professional fees	83,934	9,431	943	94,308
Advertising and promotion	36,953	4,152	416	41,521
Office expense	29,860	3,355	336	33,551
Postage, printing and copying	4,298	483	48	4,829
Insurance	26,029	2,925	292	29,246
Travel and transportation	220,712	24,799	2,480	247,991
In-kind	1,921,812	215,934	21,594	2,159,340
Depreciation	15,164	1,704	170	17,038
Non-capitalized equipment/website hosting	185,506	20,844	2,084	208,434
Miscellaneous	<u>-</u>	<u>23</u>	<u>-</u>	<u>23</u>
 Total Expenses	 <u>\$ 5,416,277</u>	 <u>\$ 866,933</u>	 <u>\$ 61,862</u>	 <u>\$ 6,345,072</u>

See notes to consolidated financial statements

InnovateEDU Inc and Subsidiary

Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services	Management and General	Fundraising	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Salaries	\$ 1,771,369	\$ 199,597	\$ 25,001	\$ 1,995,967
Payroll taxes and benefits	265,165	29,879	3,743	298,787
Consultants	458,533	51,667	6,472	516,672
Dues and subscriptions	-	52,682	-	52,682
Accounting/audit services	-	58,775	-	58,775
Legal services	-	19,153	-	19,153
Other professional fees	105,900	11,933	1,495	119,328
Advertising and promotion	12,932	1,456	183	14,571
Office expense	26,416	2,977	373	29,766
Postage, printing and copying	4,337	489	61	4,887
Insurance	22,044	2,484	311	24,839
Travel and transportation	194,172	21,879	2,741	218,792
In-kind	1,757,915	198,081	24,811	1,980,807
Depreciation	17,111	1,928	242	19,281
Non-capitalized equipment/website hosting	257,685	29,031	3,637	290,353
Miscellaneous	<u>-</u>	<u>230</u>	<u>-</u>	<u>230</u>
 Total Expenses	 <u>\$ 4,893,579</u>	 <u>\$ 682,241</u>	 <u>\$ 69,070</u>	 <u>\$ 5,644,890</u>

See notes to consolidated financial statements

InnovateEDU Inc and Subsidiary

Consolidated Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 651,524	\$ 2,005,148
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	17,038	19,281
Gain on forgiveness of Paycheck Protection Program loans	-	(599,757)
Changes in operating assets and liabilities		
Grants and contracts receivable	1,316,686	(1,519,023)
Due from related party	236,547	(71,744)
Program service fee and other receivables	(224,545)	27,203
Prepaid expenses	(614)	(1,100)
Accounts payable and accrued expenses	75,084	(96,993)
Accrued payroll and payroll taxes	38,429	23,580
Due to related party	(27,556)	27,556
Refundable advances	(130,883)	236,671
Net Cash from Operating Activities	1,951,710	50,822
CASH FLOWS FROM INVESTING ACTIVITY		
Purchase of property and equipment	(7,490)	(14,735)
Net Change in Cash	1,944,220	36,087
CASH		
Beginning of year	3,316,975	3,280,888
End of year	\$ 5,261,195	\$ 3,316,975

See notes to consolidated financial statements

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

1. Organization and Tax Status

InnovateEDU Inc (“Innovate”) was incorporated under the laws of the State of New York on September 12, 2013. The Organization’s mission is to eliminate the achievement gap by accelerating innovation in common core-aligned, next generation learning models and tools that serve, inform, and enhance teaching and learning.

ConvergeEDU PBLLC (“Converge”) was incorporated as a wholly-owned subsidiary of Innovate under the laws of the State of Delaware on May 24, 2023. Converge is a public benefit limited liability company whose public benefit purpose is to close the opportunity gap by advancing innovation in education technology and providing products and services that enhance the educational experiences and outcome for all students.

On October 17, 2022, the Organization signed an Agreement and Plan of Merger (the “Agreement”) with EdTech Evidence Exchange, Inc. (“EdTech”) to merge into a single not-for-profit legal entity under the Organization, which will serve as the sole surviving corporation. The merger will be completed upon approval by the New York State Office of the Attorney General and filing of the Certificates of Merger with the respective states. The merger has not been completed as of the date of these consolidated financial statements. Under the terms of the Agreement, the Organization has been acting as fiscal sponsor on behalf of EdTech starting October 17, 2022.

Innovate and Converge are collectively referred to as the “Organization”.

Except for taxes that may be due for unrelated business income, the Organization is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of Innovate and Converge. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (*continued*)

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Net assets without donor restrictions – consist of resources available for the general support of the Organization’s operations. Net assets without donor restrictions may be used at the discretion of the Organization’s management and/or the Board of Directors.

Net assets with donor restrictions – represents amounts restricted by donors for specific activities of the Organization or to be used at a future date. The Organization records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Grants, Contracts, Program Service Fee and Other Receivable

Grants and contributions to the Organization are recorded as revenue upon the receipt of a pledge as without donor restrictions unless the donors restrict their use. Program service fee and other revenues to be received in one year or less are reported at net realizable value. Contributions to be received after one year are discounted at an interest rate commensurate with the risk involved. An allowance for uncollectible promises to give is provided, using management’s judgment of potential defaults, which considers factors such as prior collection history, type of contribution, and the nature of fundraising activity. Contribution revenue is recognized based on the present value of the estimated future payments to be made to the Organization.

Property and Equipment

The Organization follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000. Property and equipment is recorded at cost at the date of acquisition or at their fair values at the date of donation. Costs of repairs and maintenance are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to the long lived asset, in which case it is expensed as incurred.

Depreciation is provided using the straight-line method over the estimated useful lives as follows:

Computer equipment	3 years
Furniture and fixtures	7 years

Property and equipment is reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2023 and 2022.

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

Refundable Advances

The Organization records certain grants and contracts as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue and Support

Grants and other contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Grants and other contributions of cash are reported as support with donor restrictions if they are received with donor stipulations. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met. Program service revenue is recognized at established rates when services are performed in accordance to the agreements. The Organization also provides discounts to eligible customers based on set criteria. State and city grants are recorded when expenditures are incurred and billable to the government agency.

Donated Goods, Services, and Use of Facilities

Donated goods and use of facilities are recorded at their fair value when received. The Organization recognizes contributions of services if they create or enhance nonfinancial assets, require specialized skills, are provided by individuals possessing those skills, would typically need to be purchased if not provided by the Organization, and are measurable.

For the year ended June 30, 2023, facilities, food, and other services totaling \$1,712,457 were provided to the Organization at no charge by a non-profit organization. For the year ended June 30, 2022, facilities, food, and other services totaling \$1,977,077 were provided to the Organization at no charge by Brooklyn Laboratory Charter Schools, a related party (see Note 7). Other donated services pertain to personnel, janitorial, telephone, internet, and digital resource services provided to the Organization at no charge. Fair value of donated use of facilities is estimated using the market value of similar facilities available for rent by the Organization, and fair value of donated goods and services is estimated using the market value of similar goods and services available for purchase by the Organization. These donated goods, services, and use of facilities were used for program services, management and general, and fundraising and were recorded under in-kind in the accompanying consolidated statements of functional expenses. There were no donor-imposed restrictions associated with the donated use of facilities and services.

Two entities have provided legal services to the Organization at no charge. The value of these services met the criteria for recognition in the consolidated financial statements and was recorded at fair value. For the years ended June 30, 2023 and 2022, the value of such donated services amounted to \$446,883 and \$3,800. Fair value of donated services is estimated using the market value of similar services available for purchase by the Organization. These donated services were used for management and general and were recorded under in-kind in the accompanying consolidated statements of functional expenses. There were no donor-imposed restrictions associated with the donated services.

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies *(continued)*

Donated Goods, Services, and Use of Facilities (continued)

The Organization received the following donated goods, services, and use of facilities for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Facilities	\$ 1,250,000	\$ 1,450,000
Other services	437,457	473,007
Food	<u>25,000</u>	<u>54,000</u>
	1,712,457	1,977,007
Pro-bono legal services	<u>446,883</u>	<u>3,800</u>
	<u>\$ 2,159,340</u>	<u>\$ 1,980,807</u>

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses, such as salaries, payroll taxes and benefits, consultants, and in-kind, have been allocated among program and supporting services classifications on the basis of periodic time and expense studies as determined by management of the Organization to be appropriate.

Advertising and Promotion

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs totaled \$41,521 and \$14,571 for the years ended June 30, 2023 and 2022.

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for the years prior to June 30, 2020.

Reclassifications

Certain 2022 accounts have been reclassified to conform to the 2023 consolidated financial statement presentation.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which date is January 12, 2024.

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements June 30, 2023 and 2022

3. Grants and Contracts Receivable

Grants and contracts receivable at June 30, 2023 and 2022 are due within one year and consist of the following:

	<u>2023</u>	<u>2022</u>
New York City Department of Youth and Community Development	\$ 190,074	\$ 98,183
Private grants	195,760	-
Foundation grant	<u>-</u>	<u>1,604,337</u>
	<u>\$ 385,834</u>	<u>\$ 1,702,520</u>

At June 30, 2023 and 2022 no allowance for doubtful accounts has been deemed necessary.

4. Conditional Promises to Give

At June 30, 2023, the Organization had one conditional grant totaling \$1,500,014, which contained donor conditions regarding future milestones. Since this grant represents conditional promises to give, it is not recognized as grant revenue until donor conditions are met. As of June 30, 2023, \$317,372 of these conditions have been met, and the remaining balance of the conditional grant was \$1,182,642.

5. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Computer equipment	\$ 76,099	\$ 68,609
Furniture and fixtures	<u>33,627</u>	<u>33,627</u>
	109,726	102,236
Accumulated depreciation	<u>(74,363)</u>	<u>(57,325)</u>
	<u>\$ 35,363</u>	<u>\$ 44,911</u>

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

6. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the consolidated statements of financial position date, are comprised of the following at June 30:

	<u>2023</u>	<u>2022</u>
Financial Assets at Year End:		
Cash	\$ 5,261,195	\$ 3,316,975
Grants and contracts receivable	385,834	1,702,520
Due from related party	-	236,547
Other receivables	<u>243,018</u>	<u>18,473</u>
	5,890,047	5,274,515
Less Amounts Unavailable for General Expenditure:		
Donor restricted amounts held in cash	2,992,446	1,720,826
Grants and contracts receivable with donor restricted purposes	<u>-</u>	<u>1,604,337</u>
	2,992,446	3,325,163
Financial Assets at Year End Available to Meet Cash Needs for General Expenditures Within One Year:	<u>\$ 2,897,601</u>	<u>\$ 1,949,352</u>

As part of the Organization's liquidity management plan, the status of grants and contracts receivable is monitored regularly and any excess cash is invested in highly liquid instruments.

7. Related Party Transactions *(Not Disclosed Elsewhere)*

Brooklyn Laboratory Charter Schools

The Organization was related to Brooklyn Laboratory Charter Schools (the "School"), a New York State, not-for-profit educational corporation, by common management. Effective July 1, 2022, the Organization is no longer a related party to the School. On August 9, 2014, the Organization entered into a service agreement with the School to provide the School with educational core services. This agreement has since expired and has been renewed through June 30, 2023. This agreement was not renewed past June 30, 2023. This agreement was amended to add services provided by senior fellows and consultants.

On September 5, 2017, the School entered into an agreement with the Organization for the School to compensate the Organization for an afterschool program beginning in the 2017-2018 school year. In accordance with this agreement, the School provided donated facility expenses and other goods and services to the Organization at a fair value of \$1,977,007 for the year ended June 30, 2022, included under in-kind in the accompanying consolidated statements of functional expenses.

The Organization charged the School \$462,719 for services relating to the above agreements, and is included in program service revenue in the statements of activities for the year ended June 30, 2022.

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

7. Related Party Transactions (*Not Disclosed Elsewhere*) (*continued*)

Brooklyn Laboratory Charter Schools (continued)

Net balances due from the School as of June 30, 2022 amounted to \$236,547.

Friends of Brooklyn Laboratory Schools, Inc.

The Organization is related to Friends of Brooklyn Laboratory Charter Schools, Inc. ("Friends Of"), a New York State, not-for-profit corporation, by common management.

For the years ended June 30, 2023 and 2022, the Organization paid on behalf of Friends Of \$0 and \$12,494 for operating expenses. In addition, the Organization granted \$62,000 to Friends Of during the year ended June 30, 2022. Net balance due to Friends Of amounted to \$0 and \$27,556 at June 30, 2023 and 2022 and is included in due to related party in the consolidated statements of financial position.

8. Paycheck Protection Program Loans Payable

On April 16, 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified PPP lender, for an aggregate principal amount of \$279,502 (the "PPP Loan"). The PPP Loan bore interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, had a term of two years, and was unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan was subject to forgiveness under the PPP upon the Organization's request to the extent that the PPP Loan proceeds were used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization applied for full forgiveness of the PPP Loan with respect to these covered expenses. On July 16, 2021, the PPP Loan was forgiven in full by the SBA. The loan forgiveness of \$279,502 is included on the accompanying 2022 statement of activities under gain on forgiveness of Paycheck Protection Program loans.

On February 12, 2021, the Organization qualified for and received a loan pursuant to the second draw provisions of the PPP ("PPP 2"), as authorized by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the "Economic Aid Act"), from a qualified PPP lender, for an aggregate principal amount of \$320,255 (the "PPP 2 Loan"). The PPP 2 Loan bore interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, had a term of two years, and was unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP 2 Loan was subject to forgiveness under the PPP 2 upon the Organization's request to the extent that the PPP 2 Loan proceeds were used to pay expenses permitted by the PPP 2, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization applied for forgiveness of the PPP 2 Loan with respect to these covered expenses. On May 25, 2022, the PPP Loan was forgiven in full by the SBA. The loan forgiveness of \$320,255 is included on the accompanying 2022 statement of activities under gain on forgiveness of Paycheck Protection Program loans.

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

8. Paycheck Protection Program Loans Payable (continued)

Gain on forgiveness of Paycheck Protection Program loans consisted of the following for the year ended June 30, 2022:

PPP	\$	279,502
PPP 2		<u>320,255</u>
	\$	<u>599,757</u>

9. Net Assets

Net assets with donor restrictions consist of the following at June 30:

	2023	2022
Project Unicorn	\$ 362,318	\$ 169,269
Ed-Fi Rhode Island Technical Assistance	37,808	37,808
Landing Zone Project	4,717	47,261
Development and support of new secondary schools under the Opportunity by Design initiative	24,495	100,137
Strategic planning	8,183	14,261
Edtech Evidence Exchange	582,915	-
National Partnership for Student Success	22,953	-
Support students with disabilities during distance learning due to COVID-19	<u>1,949,057</u>	<u>2,956,427</u>
	<u>\$ 2,992,446</u>	<u>\$ 3,325,163</u>

Net assets with donor restrictions were released as follows for the years ended June 30:

	2023	2022
Project Unicorn	\$ 431,921	\$ 653,030
Ed-Fi Rhode Island Technical Assistance	-	80,699
Landing Zone Project	218,894	221,700
Development and support of new secondary schools under the Opportunity by Design initiative	75,642	6,937
Strategic planning	6,078	8,762
Open Source Data Schema project	-	503,976
Edtech Evidence Exchange	267,085	-
National Partnership for Student Success	77,047	-
Support students with disabilities during distance learning due to COVID-19	<u>1,007,370</u>	<u>764,239</u>
	<u>\$ 2,084,037</u>	<u>\$ 2,239,343</u>

InnovateEDU Inc and Subsidiary

Notes to Consolidated Financial Statements
June 30, 2023 and 2022

10. Employee Retention Credit

During 2020, the Organization qualified for the Employee Retention Credit (“ERC”), which is a refundable payroll tax credit for employers who had operations fully or partially suspended due to orders from a governmental authority or whose revenues decreased by a specific threshold. When eligible, an entity can claim a refund in excess of the payroll taxes paid based upon the amount of qualified wages and health insurance paid. Because the amount of the credit is in excess of the payroll taxes paid, the ERC is considered a conditional government grant. The Organization has recognized the ERC revenue in the amount of \$114,635 for the year ended June 30, 2023. The Organization’s ERC is subject to audit until 2025.

11. Retirement Plan

The Organization has a SEP-IRA retirement plan that covers all eligible employees. Under the plan, the Organization provides vesting contributions of 1% to 5% of the employees’ base salary based on years of service. Total employer contribution for the years ended June 30, 2023 and 2022 amounted to \$27,833 and \$36,307.

12. Contingencies

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

13. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation (“FDIC”) limit. The Organization does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At June 30, 2023 and 2022, approximately \$5,011,000 and \$3,067,000 of cash was maintained with an institution in excess of FDIC limits.

14. Concentration of Revenue and Support

For the year ended June 30, 2023, the Organization received approximately 38% of total revenue and support from one organization. For the year ended June 30, 2022, the Organization received approximately 71% of total revenue and support from a private foundation and the School. At June 30, 2023, the Organization derived 49% of total grants and contracts receivable from the New York City Department of Youth and Community Development, and 87% of total program service fees and other receivables from one organization. At June 30, 2022, the Organization derived 94% of total grants and contracts receivable from one foundation.

* * * * *

InnovateEDU Inc and Subsidiary

Supplementary Information

June 30, 2023

InnovateEDU Inc and Subsidiary

Consolidating Schedule of Financial Position
June 30, 2023

	<u>Consolidated</u>	<u>Eliminations</u>	<u>Innovate</u>	<u>Converge</u>
ASSETS				
Current Assets				
Cash	\$ 5,261,195	\$ -	\$ 5,260,398	\$ 797
Grants and contracts receivable	385,834	-	385,834	-
Intercompany receivable	-	(28,635)	-	28,635
Program service fee and other receivables	243,018	-	243,018	-
Prepaid expenses	<u>1,714</u>	<u>-</u>	<u>1,714</u>	<u>-</u>
Total Current Assets	5,891,761	(28,635)	5,890,964	29,432
Property and equipment, net	<u>35,363</u>	<u>-</u>	<u>21,186</u>	<u>14,177</u>
	<u>\$ 5,927,124</u>	<u>\$ (28,635)</u>	<u>\$ 5,912,150</u>	<u>\$ 43,609</u>
LIABILITIES, NET ASSETS AND MEMBER'S EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	\$ 128,744	\$ -	\$ 127,947	\$ 797
Accrued payroll and payroll taxes	215,396	-	215,396	-
Intercompany payable	-	(28,635)	28,635	-
Refundable advances	<u>105,788</u>	<u>-</u>	<u>105,788</u>	<u>-</u>
Total Current Liabilities	449,928	(28,635)	477,766	797
Net Assets				
Without donor restrictions	2,484,750	(188,294)	2,673,044	-
With donor restrictions	<u>2,992,446</u>	<u>231,106</u>	<u>2,761,340</u>	<u>-</u>
Total Net Assets	5,477,196	42,812	5,434,384	-
Member's equity	<u>-</u>	<u>(42,812)</u>	<u>-</u>	<u>42,812</u>
	<u>\$ 5,927,124</u>	<u>\$ (28,635)</u>	<u>\$ 5,912,150</u>	<u>\$ 43,609</u>

See independent auditors' report

InnovateEDU Inc and Subsidiary

Consolidating Schedule of Activities Year Ended June 30, 2023

	Consolidated	Eliminations	Innovate			Converge		
			Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions
REVENUE AND SUPPORT								
Program service revenue	\$ 1,320,624	\$ -	\$ 974,517	\$ 974,517	\$ -	\$ 346,107	\$ 346,107	\$ -
Grants and contributions	2,679,337	-	2,229,337	928,017	1,301,320	450,000	-	450,000
State grant	233,483	-	233,483	233,483	-	-	-	-
City grant	486,267	-	486,267	486,267	-	-	-	-
Donated goods, services, and use of facilities	2,159,340	-	2,159,340	2,159,340	-	-	-	-
Other income	2,910	-	2,910	2,910	-	-	-	-
Net assets released from restrictions	-	-	-	1,865,143	(1,865,143)	-	218,894	(218,894)
Total Revenue and Support	<u>6,881,961</u>	<u>-</u>	<u>6,085,854</u>	<u>6,649,677</u>	<u>(563,823)</u>	<u>796,107</u>	<u>565,001</u>	<u>231,106</u>
EXPENSES								
Program services	5,416,277	-	4,770,803	4,770,803	-	645,474	645,474	-
Management and general	866,933	-	761,531	761,531	-	105,402	105,402	-
Fundraising	61,862	-	59,443	59,443	-	2,419	2,419	-
Total Expenses	<u>6,345,072</u>	<u>-</u>	<u>5,591,777</u>	<u>5,591,777</u>	<u>-</u>	<u>753,295</u>	<u>753,295</u>	<u>-</u>
Employee Retention Credit	<u>114,635</u>	<u>-</u>	<u>114,635</u>	<u>114,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	651,524	-	608,712	1,172,535	(563,823)	42,812	(188,294)	231,106
NET ASSETS (DEFICIT) / MEMBER'S EQUITY								
Beginning of year	<u>4,825,672</u>	<u>-</u>	<u>4,825,672</u>	<u>1,500,509</u>	<u>3,325,163</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 5,477,196</u>	<u>\$ -</u>	<u>\$ 5,434,384</u>	<u>\$ 2,673,044</u>	<u>\$ 2,761,340</u>	<u>\$ 42,812</u>	<u>\$ (188,294)</u>	<u>\$ 231,106</u>

InnovateEDU Inc and Subsidiary

Consolidating Schedule of Functional Expenses - Innovate
Year Ended June 30, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,754,454	\$ 249,578	\$ 25,550	\$ 2,029,582
Payroll taxes and benefits	278,817	31,327	3,133	313,277
Consultants	394,794	44,359	4,436	443,589
Dues and subscriptions	-	63,828	-	63,828
Accounting/audit services	-	101,461	-	101,461
Legal services	-	7,725	-	7,725
Other professional fees	81,552	9,163	916	91,631
Advertising and promotion	28,082	3,155	316	31,553
Office expense	28,681	3,223	323	32,227
Postage, printing and copying	3,649	410	41	4,100
Insurance	26,029	2,925	292	29,246
Travel and transportation	212,236	23,847	2,385	238,468
In-kind	1,921,812	215,934	21,594	2,159,340
Depreciation	15,164	1,704	170	17,038
Non-capitalized equipment/website hosting	25,533	2,869	287	28,689
Miscellaneous	-	23	-	23
Total Expenses	<u>\$ 4,770,803</u>	<u>\$ 761,531</u>	<u>\$ 59,443</u>	<u>\$ 5,591,777</u>

See independent auditors' report

InnovateEDU Inc and Subsidiary

Consolidating Schedule of Functional Expenses - Converge
 Period from May 24, 2023 (Inception) to June 30, 2023

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 373,617	\$ 47,481	\$ -	\$ 421,098
Payroll taxes and benefits	56,526	6,281	-	62,807
Consultants	33,801	3,798	380	37,979
Dues and subscriptions	-	17,402	-	17,402
Legal services	-	10,043	-	10,043
Other professional fees	2,382	268	27	2,677
Advertising and promotion	8,871	997	100	9,968
Office expense	1,179	132	13	1,324
Postage, printing and copying	649	73	7	729
Travel and transportation	8,476	952	95	9,523
Non-capitalized equipment/website hosting	<u>159,973</u>	<u>17,975</u>	<u>1,797</u>	<u>179,745</u>
 Total Expenses	 <u>\$ 645,474</u>	 <u>\$ 105,402</u>	 <u>\$ 2,419</u>	 <u>\$ 753,295</u>

See independent auditors' report