



INNOVATIVE
ARTS ACADEMY

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
CATASAUQUA, PENNSYLVANIA**

AUDIT REPORT

JUNE 30, 2025

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
JUNE 30, 2025

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INDEPENDENT AUDITOR'S REPORT

December 22, 2025

To the Board of Directors
Innovative Arts Academy Charter School
Catasauqua, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of the Innovative Arts Academy Charter School ("the School"), Catasauqua, Pennsylvania, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Innovative Arts Academy Charter School, Catasauqua, Pennsylvania, as of June 30, 2025, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit 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. 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 the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Directors
Innovative Arts Academy Charter School

Responsibilities of Management for the Financial Statements

The School's 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 the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 the 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 the School's ability to continue as a going concern for a reasonable period of time.

To the Board of Directors
Innovative Arts Academy Charter School

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.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School's basic financial statements. The combining statement of net position - governmental activities and combining statement of activities - governmental activities on pages 28 and 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of net position - governmental activities and the combining statement of activities - governmental activities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position - governmental activities and combining statement of activities - governmental activities are fairly stated, in all material respects, in relation to the basic 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 December 22, 2025, on our consideration of the School's internal control over financial reporting and on our

To the Board of Directors
Innovative Arts Academy Charter School

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 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 the School's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2025**

The Board of Directors of the Innovative Arts Academy Charter School ("the School") offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2025. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

FINANCIAL HIGHLIGHTS

- Total revenues decreased by \$3,890,278 to \$9,542,261 due to a decrease in operating grant revenues and the absence of a prior-year gain on lease termination.
- Program revenues for governmental activities accounted for \$723,755, or 7.58%, of total revenues; general revenues accounted for \$8,818,506, or 92.42%, of the total revenues.
- The General Fund ended the year with a fund balance of \$7,380,996, an increase of \$1,001,059 from the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements as presented comprise of four components: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and reporting required under *Government Auditing Standards*.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on the School's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School.

Fund Financial Statements

A *fund* is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like government-type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has two governmental funds – the General Fund and Foundation Fund.

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONT'D
JUNE 30, 2025**

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2025, the School's assets and deferred outflows of resources exceeded liabilities by \$8,607,369.

	June 30	
	2025	2024
Assets:		
Current and other assets	\$ 6,192,191	\$ 5,485,031
Capital assets	9,509,032	9,110,036
Total Assets	15,701,223	14,595,067
Deferred outflows of resources	85,902	-
Liabilities:		
Current liabilities	894,767	583,485
Noncurrent liabilities	6,284,989	6,337,902
Total Liabilities	7,179,756	6,921,387
Deferred inflow of resources	-	138,962
Net Position:		
Net investment in capital assets	3,225,675	2,747,935
Unrestricted net position	5,381,694	4,786,783
Total Net Position	\$ 8,607,369	\$ 7,534,718

The School's net position increased by \$1,072,651.

The total cost of all programs and services was \$8,469,610 for the year ended June 30, 2025.

	Year Ended June 30	
	2025	2024
Revenues:		
Program revenues		
Operating and capital grants	\$ 723,755	\$ 2,764,156
General		
Local educational agency revenues	8,476,242	7,186,814
Other	342,264	3,481,569
Total Revenue	9,542,261	13,432,539

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONT'D
JUNE 30, 2025**

	Year Ended June 30	
	2025	2024
(cont'd)		
Expenses:		
Instruction	3,944,865	5,152,428
Support services	3,680,272	3,102,365
Noninstructional services	175,756	252,288
Interest expense	409,912	390,816
Depreciation and amortization	258,805	149,895
Total Expenses	<u>8,469,610</u>	<u>9,047,792</u>
Changes in Net Position	1,072,651	4,384,747
Beginning Net Position	<u>7,534,718</u>	<u>3,149,971</u>
Ending Net Position	<u>\$ 8,607,369</u>	<u>\$ 7,534,718</u>

Governmental Funds

The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

The School's governmental funds reported an ending fund balance of \$5,495,208. For the year ended June 30, 2025, the General Fund reported an ending fund balance of \$7,380,996 and the Foundation Fund reported a deficit of \$1,885,788.

Governmental Fund Budgetary Highlights

Actual revenues exceeded budgeted revenues by \$892,147 due to higher actual revenues from local, federal, and other sources than was budgeted.

Actual expenditures came in lower than budgeted expenditures by \$97,932 due to actual expenditures for regular programs, administrative services, pupil health, business, operation and maintenance of plant services, food service, and student activities coming in lower than budgeted. This was offset by expenditures for special education, student services, central, other support services, and capital outlay coming in higher than budgeted expenditures.

CAPITAL ASSETS

As of June 30, 2025, the School's investment in capital assets for its governmental activities totaled \$9,509,032 (net of accumulated depreciation). This investment in capital assets includes land, construction-in-progress, building and improvements, furniture, and equipment.

Additional information on the School's capital assets can be found in Note 5 of this report.

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONT'D
JUNE 30, 2025**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The School does not foresee any substantial variations with next year's economic factors, budgets, or rates.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to the Chief Executive Officer, Innovative Arts Academy Charter School 330 Howertown Road, Catasauqua, PA 18032.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2025

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 4,546,234
Due from other governments	1,050,290
Other receivables	361,933
Prepaid expenses	233,734
Total Current Assets	<u>6,192,191</u>
NONCURRENT ASSETS:	
Capital assets:	
Land	568,656
Construction-in-progress	596,701
Building and improvements	8,563,932
Furniture and equipment	428,999
Accumulated depreciation	<u>(649,256)</u>
Total Capital Assets, Net	<u>9,509,032</u>
TOTAL ASSETS	<u>15,701,223</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Interest rate swap	<u>85,902</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 15,787,125</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	\$ 254,951
Accrued salaries and related costs	442,032
Notes payable	84,270
Compensated absences	113,514
Total Current Liabilities	<u>894,767</u>
NONCURRENT LIABILITIES:	
Notes payable	6,199,087
Other liability - interest rate swap	<u>85,902</u>
Total Noncurrent Liabilities	<u>6,284,989</u>
TOTAL LIABILITIES	<u>7,179,756</u>
NET POSITION	
Net investment in capital assets	3,225,675
Unrestricted	<u>5,381,694</u>
TOTAL NET POSITION	<u>8,607,369</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 15,787,125</u>

The accompanying notes are an integral part of these financial statements.

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

		Program Revenues			Net Revenue
			Operating	Capital	(Expense) and
		Charges for	Grants and	Grants and	Changes in Net
	Expenses	Services	Contributions	Contributions	Position
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 3,944,865	\$ -	\$ 700,987	\$ -	\$ (3,243,878)
Support services	3,680,272	-	22,768	-	(3,657,504)
Operation of non-instructional services	175,756	-	-	-	(175,756)
Interest on long-term debt	409,912	-	-	-	(409,912)
Unallocated depreciation	258,805	-	-	-	(258,805)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 8,469,610</u>	<u>\$ -</u>	<u>\$ 723,755</u>	<u>\$ -</u>	<u>(7,745,855)</u>
			GENERAL REVENUES		
			Local educational agencies revenues		8,476,242
			Earnings on cash and investments		92,225
			Miscellaneous revenues		250,039
			TOTAL GENERAL REVENUES		<u>8,818,506</u>
			CHANGE IN NET POSITION		1,072,651
			NET POSITION, BEGINNING OF YEAR		<u>7,534,718</u>
			NET POSITION, END OF YEAR		<u>\$ 8,607,369</u>

The accompanying notes are an integral part of these financial statements.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2025

	General Fund	Foundation Fund	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	\$ 4,436,991	\$ 109,243	\$ 4,546,234
Due from other governments	1,050,290	-	1,050,290
Other receivables	361,933	-	361,933
Due from other funds	2,086,771	91,740	2,178,511
Prepaid expenditures	233,734	-	233,734
TOTAL ASSETS	<u>8,169,719</u>	<u>200,983</u>	<u>8,370,702</u>
 LIABILITIES AND FUND BALANCE (DEFICIT)			
LIABILITIES:			
Accounts payable and accrued liabilities	254,951	-	254,951
Accrued salaries and related costs	442,032	-	442,032
Due to other funds	91,740	2,086,771	2,178,511
TOTAL LIABILITIES	<u>788,723</u>	<u>2,086,771</u>	<u>2,875,494</u>
 FUND BALANCE (DEFICIT):			
Nonspendable - prepaid expenditures	233,734	-	233,734
Assigned:			
Debt services	5,000,000	-	5,000,000
Capital projects	1,900,000	-	1,900,000
Unassigned (deficit)	247,262	(1,885,788)	(1,638,526)
TOTAL FUND BALANCE (DEFICIT)	<u>7,380,996</u>	<u>(1,885,788)</u>	<u>5,495,208</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 8,169,719</u>	<u>\$ 200,983</u>	<u>\$ 8,370,702</u>

The accompanying notes are an integral part of these financial statements.

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2025**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 5,495,208
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the fund. These assets consist of:

Land	\$ 568,656	
Building and improvements	8,563,932	
Furniture and equipment	428,999	
Construction-in-progress	596,701	
Accumulated depreciation	<u>(649,256)</u>	9,509,032

Some liabilities are not due and payable in the current period and, therefore, are not reported in the fund. Those liabilities consist of:

Notes payable	(6,283,357)	
Compensated absences	<u>(113,514)</u>	<u>(6,396,871)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 8,607,369</u></u>
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The accompanying notes are an integral part of these financial statements.

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2025**

	General Fund	Foundation Fund	Total Governmental Funds
REVENUES			
Local educational agencies revenue	\$ 8,476,242	\$ -	\$ 8,476,242
State	87,834	-	87,834
Federal	681,422	-	681,422
Other	108,644	233,620	342,264
TOTAL REVENUES	<u>9,354,142</u>	<u>233,620</u>	<u>9,587,762</u>
EXPENDITURES			
Current:			
Instruction	3,944,865	-	3,944,865
Support services	3,621,305	-	3,621,305
Operation of non-instructional services	175,756	-	175,756
Debt service	-	488,656	488,656
Capital outlay	61,100	596,701	657,801
TOTAL EXPENDITURES	<u>7,803,026</u>	<u>1,085,357</u>	<u>8,888,383</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,551,116	(851,737)	699,379
OTHER FINANCING SOURCES			
Transfers in (out)	<u>(550,057)</u>	<u>550,057</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES	<u>(550,057)</u>	<u>550,057</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	1,001,059	(301,680)	699,379
FUND BALANCE, BEGINNING OF YEAR	<u>6,379,937</u>	<u>(1,584,108)</u>	<u>4,795,829</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 7,380,996</u></u>	<u><u>\$ (1,885,788)</u></u>	<u><u>\$ 5,495,208</u></u>

The accompanying notes are an integral part of these financial statements.

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	\$	699,379
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation/amortization expense. This is the amount by which capital outlays (\$657,801) exceeded depreciation/amortization expense (\$258,805).		398,996
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long- term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		78,744
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In the statement of activities, certain operating expenses - compensated absences (vacation) - are measured by the amounts earned during the year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		(58,967)
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In the statement of activities, certain revenues are measured by the amounts earned during the year. In the governmental funds; however, revenues for these items are measured by the amount of financial resources received or readily available. This amount represents the difference between the amount earned versus the amount readily available.		(45,501)
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CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u>1,072,651</u>
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The accompanying notes are an integral part of these financial statements.

**INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2025**

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Local educational activities	\$ 7,853,533	\$ 8,476,242	\$ 622,709
State	119,008	87,834	(31,174)
Federal	484,454	681,422	196,968
Other	5,000	108,644	103,644
TOTAL REVENUES	<u>8,461,995</u>	<u>9,354,142</u>	<u>892,147</u>
EXPENDITURES			
Instruction:			
Regular programs	3,574,453	3,283,171	291,282
Special education programs	592,929	661,694	(68,765)
Total Instruction	<u>4,167,382</u>	<u>3,944,865</u>	<u>222,517</u>
Support Services:			
Student services	721,565	865,292	(143,727)
Administration services	1,652,998	1,613,315	39,683
Pupil health	76,728	76,254	474
Business	205,000	143,929	61,071
Operation and maintenance of plant services	723,430	699,836	23,594
Central	113,855	192,193	(78,338)
Other support services	-	30,486	(30,486)
Total Support Services	<u>3,493,576</u>	<u>3,621,305</u>	<u>(127,729)</u>
Operation of Non-instructional Services:			
Food services	160,000	144,057	15,943
Student activities	80,000	31,699	48,301
Total Operation of Non-instructional Services	<u>240,000</u>	<u>175,756</u>	<u>64,244</u>
Capital outlay	<u>-</u>	<u>61,100</u>	<u>(61,100)</u>
TOTAL EXPENDITURES	<u>7,900,958</u>	<u>7,803,026</u>	<u>97,932</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>561,037</u>	<u>1,551,116</u>	<u>990,079</u>
OTHER FINANCING SOURCES			
Transfers out	(550,057)	(550,057)	-
TOTAL OTHER FINANCING SOURCES	<u>(550,057)</u>	<u>(550,057)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	10,980	1,001,059	990,079
FUND BALANCE, BEGINNING OF YEAR	<u>6,379,937</u>	<u>6,379,937</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 6,390,917</u>	<u>\$ 7,380,996</u>	<u>\$ 990,079</u>

The accompanying notes are an integral part of these financial statements.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Innovative Arts Academy Charter School ("the School") is a charter school located in Pennsylvania and operates in accordance with Pennsylvania Act 22 of 1997 ("the Act"). The School is operating under a charter school contract through 2029 and serves grades 6 through 12.

The financial statements of the School are prepared in accordance with the accounting system and procedures prescribed for charter schools by the Commonwealth of Pennsylvania, Department of Education, which conforms to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles.

Reporting Entity

GASB's *Codification of Governmental Accounting and Financial Reporting Standards* ("GASB Codification") established the criteria for determining the activities, organizations, and functions of government to be included in the financial statements of the reporting entity. In evaluating the School as a reporting entity, management has addressed all potential component units which may or may not fall within the School's financial accountability. The criteria used to evaluate component units for possible inclusion as part of the School's reporting entity are financial accountability and the nature and significance of the relationship. On the basis of these criteria, The Innovative Arts Academy Charter School Foundation ("the Foundation") is a component unit of the School.

Blended Component Unit

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation is considered a blended component unit because its sole purpose is to own and manage the facility occupied by the School, and as such is combined with the School's governmental activities and presented as a special revenue fund in accordance with the GASB Codification.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Entity-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by the program revenues.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include federal and state grants. Internally dedicated resources and the per-student subsidy from local school districts are reported as general revenues rather than as program revenues.

The government-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted when constraints placed on the net position use are either externally imposed by creditors (such as through debt covenants), grantors or contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted."

Fund Financial Statements

During the school year, the School segregates transactions related to certain School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the School.

The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type.

Governmental Funds

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

The School reports the following major governmental funds:

- **General Fund** – The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- **Foundation Fund** – The foundation fund is used to account for and report financial resources of the School's blended component unit.

Fund balance of the governmental funds is classified as applicable, as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of Directors ("The Board"). The Board is the highest level of decision-making authority for the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Chief Executive Officer may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the School considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds and, finally, unassigned funds, as needed, unless the Board or Chief Executive Officer have provided otherwise in their commitment or assignment actions.

Revenue Recognition

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Charges to school districts, state appropriations, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

All other revenue items are considered to be measurable and available only when the School receives cash because they generally are not measurable until actually received.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual budget is adopted for the general fund, and it lapses at the end of the year.

Cash and Cash Equivalents

The School's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Capital Assets

Capital assets, which include land, building and building improvements, and furniture and equipment, are reported in the entity-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a \$2,500 threshold for capitalizing assets. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the asset as follows:

Buildings and building improvements	7 - 39 years
Furniture and equipment	3 - 15 years

Income Tax Status

The School and the Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, have no provision for federal income taxes. The School and Foundation qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations that are not private foundations under Section 509(a)(1). The School and the Foundation did not engage in any unrelated business activities during the fiscal year. Management believes more likely than not that the tax-exempt status and tax positions of the School and the Foundation will be sustained if examined by authorities.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Compensated Absences

Employees can carryover a maximum of twenty unused vacation/PTO days into the new school year. Employees who have in excess of 20 accrued unused PTO days will be paid out of the number of days exceeding 20 unused days at a rate of \$150 for each day and the payout will be paid the second pay period of the following school year. Upon retirement, all unused PTO days will be paid out at \$150 per day. In the fund financial statements, the governmental fund reports only the compensated absence liability payable from expendable available financial resources. As of June 30, 2025, the compensated absences balance was \$113,514.

Use of Estimates in the Preparation of Financial Statements

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

Implementation of GASB Statement

During the year ended June 30, 2025, the School implemented Governmental Accounting Standards Board ("GASB") Statement No. 101, "Compensated Absences." The purpose of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The implementation of this standard did not have a material effect on the School's financial statements

NOTE 3 CASH AND CASH EQUIVALENTS

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. The School does not have a policy for custodial credit risk. At June 30, 2025, the carrying amount of the School's deposits was \$4,546,234, and the bank balance was \$4,592,533. Of this amount, \$373,072 was insured by the Federal Deposit Insurance Corporation ("FDIC"), and \$4,219,461 was exposed to custodial credit risk because it was uninsured, and the collateral held by the depository's agent was not in the School's name.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 RECEIVABLES

Receivables as of June 30, 2025 consist of subsidies from local, federal and state authorities. Management believes all receivables are collectible and, accordingly, has not established an allowance for doubtful accounts.

A summary of receivables is as follows:

Federal	\$ 170,481
State	72,079
Local	807,730
Other	<u>361,933</u>
 TOTAL	 <u>\$ 1,412,223</u>

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2025 was as follows:

	Balance 07/01/24	Additions	Deletions	Balance 06/30/25
Capital assets not being depreciated				
Land	\$ 568,656	\$ -	\$ -	\$ 568,656
Construction-in-progress	<u>-</u>	<u>596,701</u>	<u>-</u>	<u>596,701</u>
Total capital assets not being depreciated	<u>568,656</u>	<u>596,701</u>	<u>-</u>	<u>1,165,357</u>
Capital assets being depreciated				
Building and improvements	8,555,218	8,714	-	8,563,932
Furniture and equipment	<u>376,613</u>	<u>52,386</u>	<u>-</u>	<u>428,999</u>
Total capital assets being depreciated	<u>8,931,831</u>	<u>61,100</u>	<u>-</u>	<u>8,992,931</u>
Accumulated depreciation	<u>(390,451)</u>	<u>(258,805)</u>	<u>-</u>	<u>(649,256)</u>
Capital assets being depreciated, net	<u>8,541,380</u>	<u>(197,705)</u>	<u>-</u>	<u>8,343,675</u>
Net Capital Assets	<u>\$9,110,036</u>	<u>\$ 398,996</u>	<u>\$ -</u>	<u>\$9,509,032</u>

Depreciation expense was charged to functions/programs of the School as follows:

Governmental Activities - unallocated	<u>\$ 258,805</u>
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INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 6 LOCAL EDUCATION AGENCY ASSISTANCE (REVENUE)

The School receives funding from various school districts on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis. For each non-special education student enrolled, the School receives no less than the budgeted total expenditure per average daily membership of the prior school year as defined by the Act. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. The total revenue from student enrollment was \$8,476,242 for the year ended June 30, 2025.

NOTE 7 GRANTS

The School participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivables at June 30, 2025 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 8 RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. There has been no significant reduction in insurance coverage of the School's policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past year.

NOTE 9 LONG-TERM DEBT

On December 30, 2023, the Foundation entered into a loan agreement with Peoples Security Bank and Trust Company. The purpose of the loan was to purchase the building at 30 Howertown Road, Catasauqua, PA. The principal amount borrowed was \$6,400,000. The loan has a 5-year term with a balloon payment due at maturity. Interest shall be charged on the outstanding balance of the loan at a fluctuating rate equal to Term Secured Overnight Financing Rate (SOFR) plus 2% per annum. The interest rate is subject to adjustment from time to time based on changes in Term SOFR. Such adjustments shall become effective on the 1st day of every month, beginning January 1, 2024. The loan is secured by the building. The annual payments are outlined below using the current interest rate of 5.984%. Below is the payment schedule.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 9 LONG-TERM DEBT (cont'd)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2026	\$ 84,270	\$ 374,144	\$ 458,414
2027	89,584	368,984	458,568
2028	94,710	363,503	458,213
2029	<u>6,014,793</u>	<u>179,963</u>	<u>6,194,756</u>
TOTALS	<u>\$ 6,283,357</u>	<u>\$ 1,286,594</u>	<u>\$ 7,569,951</u>

Interest Rate Swap

Objective of the Interest rate swap.

As a means to lower its borrowing costs, when compared against fixed-rate loans at the time of issuance, the Foundation entered into an interest rate swap in connection with its \$6,400,000 variable rate loan. The intention of the swap was to effectively change the Foundation's variable interest rate on the loan to a synthetic fixed rate. This derivative is a pay-fixed, receive-variable interest rate swap used to hedge the variability in cash flows on the related variable-rate debt and is not held for investment purposes.

Terms

The loan and the related swap agreement terminate on December 20, 2028, and the swap's original notional amount was \$6,400,000. The swap was entered into on December 30, 2023. Under the swap, the Foundation pays a fixed rate of 6.91% and receives variable cash flows based on Term SOFR. Combined with the loan's variable rate of Term SOFR plus 2%, the swap is designed to synthetically fix the effective rate on the debt at approximately the fixed swap rate plus the 2% loan credit spread. The variable rate paid on the loan is equal to the Term SOFR plus 2%.

Hedge accounting

The swap is designated and accounted for as a hedging derivative instrument. Hedge effectiveness was evaluated using the consistent critical-terms method (matching notional amounts, interest rate index, payment and reset dates, and maturity), and the hedge relationship was determined to be effective for the fiscal year. Accordingly, changes in fair value are reported as deferred outflows/inflows of resources rather than as current-period revenue or expense.

At June 30, 2025, the negative fair value resulted in a deferred outflow of resources of \$85,902 and a corresponding derivative liability of \$85,902 reported on the statement of net

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 9 LONG-TERM DEBT (cont'd)

position. Amounts deferred will be recognized as an adjustment to interest expense when the related hedged debt service payments occur.

Fair Value

The swap has a negative fair value of \$85,902 as of June 30, 2025. Fair value was measured using a present-value technique that projects future net swap cash flows using observable Term SOFR forward curves and discounts those cash flows using market-based discount rates. Because the valuation relies on significant observable inputs, the swap is classified as a Level 2 measurement under GASB Statement No. 72.

Credit Risk

As of June 30, 2025, the Foundation had no exposure to counterparty credit risk because the swap had a negative fair value (a liability to the counterparty). If the swap's fair value becomes positive, the Foundation's maximum exposure to the counterparty would be the swap's fair value at that date.

Basis Risk

There is no basis risk related to the reference index since both the swap and the debt use Term SOFR as the underlying index (the 2% spread on the debt does not create basis risk because it is fixed and not linked to a different market index).

Termination Risk

The Foundation or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate loan would no longer carry a synthetic fixed interest rate. Also, if at the time of termination, the swap has a negative fair value, the Foundation would be liable to the counterparty for a payment equal to the swap's fair value.

Interest Rate Risk

The swap exposes the Foundation to interest rate risk since a decrease in interest rates will adversely affect the fair value of the financial instrument (the negative fair value would generally increase as market rates decline).

Rollover Risk

There is no rollover risk since the derivative instrument extends to the maturity of the hedged item.

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 9 LONG-TERM DEBT (cont'd)

Market Access Risk

Market access risk is not considered significant because the swap and the related debt share the same maturity date.

Foreign Currency Risk

There is no risk that changes in exchange rates will adversely affect the fair values of the financial instruments or cash flows.

NOTE 10 LINE OF CREDIT

The School has entered into an agreement with Charter Solutions, LLC for a line of credit, in the amount of \$250,000 to provide working capital for the School. Interest is payable at 7.5% per annum, computed per diem on the outstanding sum. As of June 30, 2025, the outstanding balance was \$0. Interest paid on the line-of-credit totaled \$0 for the year ended June 30, 2025.

NOTE 11 LONG-TERM LIABILITIES

The following summarizes the changes in long-term liabilities for the year ended June 30, 2025:

	Balance July 1, 2024	Additions	Reductions	Balance June 30, 2025	Due Within One Year
Long-term debt	\$ 6,362,101	\$ -	\$ 78,744	\$ 6,283,357	\$ 84,270
Compensated absences	54,547	58,967	-	113,514	113,514
Interest rate swap	-	85,902	-	85,902	-
TOTALS	\$ 6,416,648	\$ 144,869	\$ 78,744	\$ 6,482,773	\$ 197,784

The change in compensated absences is reported net of increases and decreases.

Payments of long-term liabilities from long-term debt are to be funded by the Foundation fund, while long-term liabilities from compensated absences are paid out from the general fund.

NOTE 12 DEFINED CONTRIBUTION PENSION PLAN

Employees participate from the date of employment, with a mandatory minimum contribution of 5%. The School will match the employees' contributions dollar for dollar up to 5% of their

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 12 DEFINED CONTRIBUTION PENSION PLAN

Employees participate from the date of employment, with a mandatory minimum contribution of 5%. The School will match the employees' contributions dollar for dollar up to 5% of their compensation. School contributions to the plan for the year ended June 30, 2025 approximated \$192,755.

NOTE 13 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of appropriations in the following amounts for the year ended June 30, 2025:

Instruction – special education	\$ 68,765
Support – student services	143,727
Support – central	78,338
Support – other support services	30,486
Capital Outlay	61,100

The excess of expenditures over appropriations was financed by savings in other budgeted line items.

NOTE 14 INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2025 as follows:

<u>Receivable By</u>	<u>Amount</u>	<u>Payable From</u>	<u>Amount</u>
General Fund	<u>\$ 2,086,771</u>	Foundation Fund	<u>\$ 2,086,771</u>

Internal balances between the general and foundation funds represent advances from the general fund for operations. The balances will be repaid through rent income generated by the foundation fund.

The general fund transferred \$550,057 to the Foundation Fund during the year ended June 30, 2025 to support future debt service.

NOTE 15 COMMITMENTS

As of June 30, 2025, the School was in the process of completing capital projects. Construction commitments are as follows:

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 15 COMMITMENTS (cont'd)

	<u>Contract Amount</u>	<u>Completed 6/30/2025</u>	<u>Commitment</u>
Contracts	<u>\$ 1,699,978</u>	<u>\$ -</u>	<u>\$ 1,699,978</u>

Additionally, at June 30, 2025, the School had \$596,701 in construction-in-progress not subject to construction commitments.

NOTE 16 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through December 22, 2025, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
COMBINING STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2025

	School	Foundation	Eliminating Entries	Totals
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
CURRENT ASSETS:				
Cash and cash equivalents - unrestricted	\$ 4,436,991	\$ 109,243	\$ -	\$ 4,546,234
Due from other governments	1,050,290	-	-	1,050,290
Other receivables	361,933	-	-	361,933
Prepaid expenses	233,734	-	-	233,734
Due from related party	2,086,771	91,740	(2,178,511)	-
Total Current Assets	<u>8,169,719</u>	<u>200,983</u>	<u>(2,178,511)</u>	<u>6,192,191</u>
NONCURRENT ASSETS:				
Capital assets				
Land	-	568,656	-	568,656
Construction-in-progress	-	596,701	-	596,701
Buildings and building improvements	1,008,898	7,555,034	-	8,563,932
Furniture and equipment	428,999	-	-	428,999
Accumulated depreciation	(375,386)	(273,870)	-	(649,256)
Total Noncurrent Assets	<u>1,062,511</u>	<u>8,446,521</u>	<u>-</u>	<u>9,509,032</u>
TOTAL ASSETS	<u>9,232,230</u>	<u>8,647,504</u>	<u>(2,178,511)</u>	<u>15,701,223</u>
DEFERRED OUTFLOWS OF RESOURCES				
Interest rate swap	-	85,902	-	85,902
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>85,902</u>	<u>-</u>	<u>85,902</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 9,232,230</u>	<u>\$ 8,733,406</u>	<u>\$ (2,178,511)</u>	<u>\$ 15,787,125</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)				
CURRENT LIABILITIES:				
Accounts payable	\$ 254,951	\$ -	\$ -	\$ 254,951
Accrued salaries and related costs	442,032	-	-	442,032
Compensated absences	113,514	-	-	113,514
Notes payable	-	84,270	-	84,270
Due to related party	91,740	2,086,771	(2,178,511)	-
Total Current Liabilities	<u>902,237</u>	<u>2,171,041</u>	<u>(2,178,511)</u>	<u>894,767</u>
NONCURRENT LIABILITIES:				
Notes payable	-	6,199,087	-	6,199,087
Other liability - interest rate swap	-	85,902	-	85,902
Total Noncurrent Liabilities	<u>-</u>	<u>6,284,989</u>	<u>-</u>	<u>6,284,989</u>
TOTAL LIABILITIES	<u>902,237</u>	<u>8,456,030</u>	<u>(2,178,511)</u>	<u>7,179,756</u>
NET POSITION (DEFICIT)				
Net investment in capital assets	1,062,511	2,163,164	-	3,225,675
Unrestricted (deficit)	7,267,482	(1,885,788)	-	5,381,694
Total Net Position	<u>8,329,993</u>	<u>277,376</u>	<u>-</u>	<u>8,607,369</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	<u>\$ 9,232,230</u>	<u>\$ 8,733,406</u>	<u>\$ (2,178,511)</u>	<u>\$ 15,787,125</u>

INNOVATIVE ARTS ACADEMY CHARTER SCHOOL
COMBINING STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

	<u>School</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Totals</u>
PROGRAM REVENUES				
Operating grants and contributions	\$ 723,755	\$ -	\$ -	\$ 723,755
TOTAL PROGRAM REVENUES	<u>723,755</u>	<u>-</u>	<u>-</u>	<u>723,755</u>
EXPENSES				
Instructional services	3,944,865	-	-	3,944,865
Support services	3,680,272	-	-	3,680,272
Operation of non-instructional services	175,756	-	-	175,756
Interest on long-term debt	-	409,912	-	409,912
Unallocated depreciation expense	69,929	188,876	-	258,805
TOTAL EXPENSES	<u>7,870,822</u>	<u>598,788</u>	<u>-</u>	<u>8,469,610</u>
GENERAL REVENUES				
Local education agencies revenue	8,476,242	-	-	8,476,242
Earnings on cash and investments	92,225	-	-	92,225
Miscellaneous revenues	16,419	233,620	-	250,039
Interfund transfers	(550,057)	550,057	-	-
TOTAL GENERAL REVENUES	<u>8,034,829</u>	<u>783,677</u>	<u>-</u>	<u>8,818,506</u>
CHANGE IN NET POSITION	887,762	184,889	-	1,072,651
NET POSITION, BEGINNING OF YEAR	<u>7,442,231</u>	<u>92,487</u>	<u>-</u>	<u>7,534,718</u>
NET POSITION, END OF YEAR	<u>\$ 8,329,993</u>	<u>\$ 277,376</u>	<u>\$ -</u>	<u>\$ 8,607,369</u>



INDEPENDENT AUDITOR'S REPORT ON
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

December 22, 2025

To the Board of Directors
Innovative Arts Academy Charter School
Catasauqua, Pennsylvania

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, the financial statements of the governmental activities and each major fund of the Innovative Arts Academy Charter School ("the School"), Catasauqua, Pennsylvania, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 22, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

To the Board of Directors
Innovative Arts Academy Charter School

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 of Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP