

The Ingenuity Project, Inc.

Financial Statements

Years Ended June 30, 2020 and 2019

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Independent Auditors' Report

Board of Directors
The Ingenuity Project, Inc.,
Baltimore, Maryland

We have audited the accompanying financial statements of The Ingenuity Project, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

**Tysons, Virginia
January 22, 2021**

The Ingenuity Project, Inc.
Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 605,893	\$ 530,702
Grants receivable, net	328,467	70,000
Prepaid expenses	4,780	-
	<u>939,140</u>	<u>600,702</u>
Total current assets		
	<u>939,140</u>	<u>600,702</u>
Furniture and equipment, at cost	199,812	191,629
Less - accumulated depreciation	<u>(168,331)</u>	<u>(156,151)</u>
Net furniture and equipment	31,481	35,478
Grants receivable, long-term	<u>235,000</u>	<u>15,000</u>
	<u>\$ 1,205,621</u>	<u>\$ 651,180</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 15,368	\$ 4,491
Accrued salaries	25,504	17,068
Paycheck Protection Program, current portion	<u>124,220</u>	<u>-</u>
Total current liabilities	<u>165,092</u>	<u>21,559</u>
Other liabilities:		
Paycheck Protection Program loan, less current portion	<u>81,280</u>	<u>-</u>
Total liabilities	<u>246,372</u>	<u>21,559</u>
Net assets:		
Without donor restrictions	(90,751)	69,621
With donor restrictions	<u>1,050,000</u>	<u>560,000</u>
Total net assets	<u>959,249</u>	<u>629,621</u>
	<u>\$ 1,205,621</u>	<u>\$ 651,180</u>

See accompanying notes.

The Ingenuity Project, Inc.
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support:						
Grant, Abell Foundation	\$ -	\$ 375,000	\$ 375,000	\$ -	\$ 375,000	\$ 375,000
Grant, Baltimore City Public Schools	417,700	-	417,700	383,000	-	383,000
Grant, corporate and other foundations	67,075	655,000	722,075	120,000	90,000	210,000
Other revenue	303,454	-	303,454	265,039	-	265,039
Net assets released from restriction	540,000	(540,000)	-	375,000	(375,000)	-
Total revenues and other support	1,328,229	490,000	1,818,229	1,143,039	90,000	1,233,039
Expenses:						
Program services	1,131,650	-	1,131,650	1,074,309	-	1,074,309
Management and general	188,365	-	188,365	166,858	-	166,858
Fundraising	168,586	-	168,586	147,287	-	147,287
Total expense	1,488,601	-	1,488,601	1,388,454	-	1,388,454
Change in net assets	(160,372)	490,000	329,628	(245,415)	90,000	(155,415)
Net assets at beginning of year	69,621	560,000	629,621	315,036	470,000	785,036
Net assets at end of year	<u>\$ (90,751)</u>	<u>\$ 1,050,000</u>	<u>\$ 959,249</u>	<u>\$ 69,621</u>	<u>\$ 560,000</u>	<u>\$ 629,621</u>

See accompanying notes.

The Ingenuity Project, Inc.
Statements of Functional Expenses
Years Ended June 30, 2020 and 2019

	2020				2019			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 785,567	\$ 118,378	\$ 134,664	1,038,609	\$ 714,175	\$ 115,580	\$ 116,952	\$ 946,707
Supplies	44,228	-	-	44,228	52,911	-	-	52,911
Employee benefits	137,570	25,799	-	163,369	128,351	25,235	-	153,586
Payroll taxes	60,313	9,089	10,339	79,741	56,900	9,209	9,318	75,427
Other	89,997	35,099	23,583	148,679	107,497	16,834	21,017	145,348
Total functional expenses before depreciation	1,117,675	188,365	168,586	1,474,626	1,059,834	166,858	147,287	1,373,979
Depreciation	13,975	-	-	13,975	14,475	-	-	14,475
Total functional expenses	<u>\$ 1,131,650</u>	<u>\$ 188,365</u>	<u>\$ 168,586</u>	<u>\$ 1,488,601</u>	<u>\$ 1,074,309</u>	<u>\$ 166,858</u>	<u>\$ 147,287</u>	<u>\$ 1,388,454</u>

See accompanying notes.

The Ingenuity Project, Inc.
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 329,628	\$ (155,415)
Adjustment to reconcile change in net assets to net cash from operating activities:		
Depreciation	13,975	14,475
Loss on disposal of furniture and equipment	-	1,241
Change in:		
Grants receivable	(478,467)	265,000
Prepaid expenses	(4,780)	9,208
Accounts payable	10,877	(5,849)
Accrued salaries	8,436	(3,589)
Net cash (used in) provided by operating activities	(120,331)	125,071
Cash flows from investing activities:		
Purchase of furniture and equipment	(9,978)	(24,795)
Net cash used in investing activities	(9,978)	(24,795)
Cash flows from financing activities:		
Paycheck Protection Program loan	205,500	-
Net cash provided by financing activities	205,500	-
Net change in cash and cash equivalents	75,191	100,276
Cash and cash equivalents, beginning of period	530,702	430,426
Cash and cash equivalents, end of period	<u>\$ 605,893</u>	<u>\$ 530,702</u>
Supplemental disclosure of cash flow information:		
Donated furniture and equipment	<u>\$ -</u>	<u>\$ 24,500</u>

See accompanying notes.

Notes to Financial Statements

1. Organization and Nature of Activities

The Ingenuity Project, Inc. (the "Organization") was formed to prepare highly motivated Baltimore City Public School students to achieve nationally competitive levels in math, science, technology, and related fields. The students enrolled in the Organization are in grades 6 through 12. The Organization also provides materials and training for the teachers using this curriculum. The majority of revenue comes from foundations and the Baltimore City Public Schools.

2. Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenue is recognized when earned and expenses when the obligation is incurred.

Cash and cash equivalents

The Organization classifies all highly-liquid instruments with initial maturities of three months or less when purchased as cash equivalents.

Allowance for doubtful accounts

The Organization uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce grants receivable to their expected net realizable value. The Organization estimates the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt trends. Actual collection experience has not varied significantly from estimates. The Organization charges-off receivables deemed to be uncollectible to the allowance for doubtful accounts. There was no allowance for doubtful accounts as of June 30, 2020 and 2019.

Furniture and equipment

The Organization capitalizes expenditures for furniture and equipment as well as expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of existing assets. Furniture and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of activities. Depreciation is computed over estimated useful lives of 3-7 years using the straight-line method. Depreciation expense was \$13,975 and \$14,475 for the years ended June 30, 2020 and 2019, respectively.

Classification of net assets

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Under the standards for not-for-profit organizations issued by FASB, the Organization is required to report information regarding its financial position and activities in two classes of net assets as follows:

- Net assets without donor restrictions – not subject to donor restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

- Net assets with donor restrictions – subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Net assets with donor restrictions include grants or gifts for which donor-imposed restrictions have not been met. When such stipulations have been met, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. At June 30, 2020 and 2019, the Organization had net assets with donor restrictions of \$1,050,000 and \$560,000, respectively.

Deferred revenues, contributions and revenue recognition

Revenues received in advance of the period in which it is earned is deferred to subsequent periods. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain costs have been allocated among program services, fundraising and management and general categories. Such allocations are determined by management on an estimated time and efforts basis.

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and wages	Time and effort
Employee benefits	Time and effort
Payroll taxes	Time and effort
Other	Direct charge

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising expense

The Organization expenses advertising costs as incurred. Advertising expenses were \$20,596 and \$4,275 for the years ended June 30, 2020 and 2019, respectively.

Donated goods, services and office space

The Organization periodically receives non-cash donations. Baltimore City Public Schools donates the office space occupied by the Organization. The Organization records the fair value of the space as both income and expense. The value of the donated space was \$9,160 for both 2020 and 2019 and is reported within "other revenue" and "management and general" expense on the statements of activities and change in net assets. Additionally, an institution donated computer equipment during the year ended June 30, 2019. The Organization recorded the computer equipment as furniture and equipment on the statements of financial position and other revenue on the statements of activities and change in net assets at \$24,500, which represents fair value. Lastly, various individuals will periodically donate their services to the Organization, however, no amounts have been reflected in the accompanying financial statements for those services since they either 1) do not meet the criteria for recognition under FASB ASC 958-605 or 2) are considered immaterial.

Income taxes

The Organization is exempt from federal income taxes (except taxes on unrelated business income) under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code") and comparable state law. Contributions to the Organization are tax-deductible within the limitations prescribed by the Code. The Organization has been classified as a publicly-supported Organization which is not a private foundation under Section 509(a) of the Code. No provision for income taxes is required for the years ended June 30, 2020 or 2019 since the Organization had no taxable income from unrelated business activities. The Organization is also exempt from state income taxes.

New Accounting Pronouncement

Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions (Topic 958)*. Under this guidance, it provides clarification for determining whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution is conditional. The Organization adopted ASU 2018-08 on July 1, 2019, using the modified prospective approach, noting no material impact to the financial statements.

Recently issued accounting standards

Revenue from Contracts with Customers

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities, extending one-year delays to certain companies to provide immediate, near-term relief for whom these standards are not currently effective or imminently effective. The ASU permits private companies and not-for-profit organizations that have not yet issued (or made available) financial statements with ASC 606, Revenue from Contracts with Customers implemented to defer one year to annual reporting periods beginning after December 15, 2019. Therefore, the Organization has chosen to delay implementation of ASC 606 and will adopt this standard on its June 30, 2021 year-end financial statements.

Subsequent events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 22, 2021, the date the financial statements were available to be issued.

As of the statement of financial position date, COVID-19, classified as a pandemic by the World Health Organization, continues to disrupt business along with the business of the Organization's donors. The extent of the impact of the outbreak on their operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on their donors, employees, and vendors, and governmental, regulatory and private sector responses. The financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

3. Grants Receivable

Unconditional promises to give are recorded as contributions when received. Amounts that are expected to be collected within one year are recorded at their net realized value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

The Ingenuity Project, Inc.
Notes to Financial Statements

Included in the grants receivable at June 30 are the following unconditional promises to give:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 328,467	\$ 70,000
One to five years	<u>235,000</u>	<u>15,000</u>
	<u>563,467</u>	<u>85,000</u>
Less: discount	<u>-</u>	<u>-</u>
Total grants receivable, net	<u>\$ 563,467</u>	<u>\$ 85,000</u>

4. Retirement Plan

The Organization maintains a 403(b) defined contribution retirement plan (the "Plan"). Employees may contribute to the Plan if they earned at least \$5,000 in one of the previous two years and were reasonably expected to earn \$5,000 in the current year.

The Organization's contributions to the Plan for the years ended June 30, 2020 and 2019 were \$17,740 and \$16,167, respectively.

5. Availability and Liquidity

Financial assets available for general expenditures within one year of the statement of financial position consist of the following at June 30:

Current financial assets:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 605,893	\$ 530,702
Grants receivable, current	<u>328,467</u>	<u>70,000</u>
Prepaid expenses	<u>4,780</u>	<u>-</u>
Total current financial assets	<u>\$ 939,140</u>	<u>\$ 600,702</u>
Less - amounts not available to be used within one year:		
Net assets with donor restrictions not available within one year	<u>235,000</u>	<u>560,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 704,140</u>	<u>\$ 40,702</u>

At June 30, 2020, the Organization had working capital of \$774,048 which excludes financial assets not available to be used within one year, as noted above.

6. Concentrations

Concentrations of credit risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash invested at a financial institution in excess of Federal Deposit Insurance Corporation (FDIC) coverage and investments.

The Organization maintains cash in bank accounts, which may at times exceed the federally insured limit. The Organization has not experienced any losses as a result of the concentration, and management believes it is not exposed to any significant credit risk.

Concentration of revenue sources

The Organization received 66% and 61% of its total revenue and support from three and two contributors during the years ended June 30, 2020 and 2019, respectively.

7. Paycheck Protection Program (PPP) Loan

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 17, 2020. One provision of the law included the expansion of the availability of funds by establishing the Paycheck Protection Program ("PPP"), a new loan program under the Small Business Administration's 7(a) program. A feature of this program is that a portion or all of loans under PPP may effectively be converted to a grant through a special loan forgiveness provision if certain criteria are met.

On May 6, 2020, the Organization was granted a loan in the aggregate amount of \$205,500 under the Paycheck Protection Program ("PPP"). The loan, which was in the form of a note dated May 6, 2020 issued by the Organization, matures on January 21, 2023. The note may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before February 15, 2020. The Organization intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loans may be forgiven if they are used for qualifying expenses as described in the CARES Act. The Organization believes it has used the proceeds of the loans for qualifying expenses under the PPP. However, additional steps must be taken to apply for and receive forgiveness. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for ten months from the end of the Organization's covered period. While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, it is uncertain at this time what portion of the PPP loan may be forgiven, if any.

Maturities for the year ended June 30:

2021	\$ 124,220
2022	<u>81,280</u>
	<u>\$ 205,500</u>

8. Net Assets with Donor Restrictions

Net assets released from donor restriction by incurring expenses satisfying the restricted purposes, or by occurrence of other events specified by the donor, are as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Purpose-restricted:		
Jack Kent Cooke Foundation	\$ 100,000	\$ 50,000
Jack and Jill Foundation	5,000	-
Lockhart Vaughan Foundation	35,000	70,000
Joseph and Harvey Meyerhoff Family Charitable Funds	15,000	30,000
T Rowe Price Foundation	105,000	-
Abell Foundation	375,000	375,000
Harry and Jeanette Weinberg Foundation	400,000	-
Thomas Wilson Sanitarium for Children of Baltimore City	-	20,000
Alvin and Fanny B. Thalheimer Foundation	<u>15,000</u>	<u>15,000</u>
Net assets with donor restrictions	<u>\$ 1,050,000</u>	<u>\$ 560,000</u>

9. Other Revenues

The Organization had revenues and received contributions classified as "Other revenues" from the following sources in the years ended June 30:

	<u>2020</u>	<u>2019</u>
Individual donations	\$ 124,211	\$ 84,188
Fundraisers	22,565	14,368
Scholarship donations	-	4,254
Donated equipment	-	24,500
Donated rent	9,160	9,160
Interest income	731	661
School funding	84,280	70,445
Loss on disposal of furniture and equipment	-	(1,241)
Summer camp fees	26,957	30,454
Board funding	<u>35,550</u>	<u>28,250</u>
Total other revenues	<u>\$ 303,454</u>	<u>\$ 265,039</u>