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December 18, 2020

Charter School Board
pilotED Schools, Inc.
2710 Bethel Ave
Indianapolis, IN 46203

We have reviewed the audit report of pilotED Schools, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2019 to June 30, 2020. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of pilotED Schools, Inc. as of June 30, 2020 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared the audit report in accordance with guidelines established by the State Board of Accounts.

In addition to the report presented herein, a Supplemental Audit Report for pilotED Schools, Inc., was prepared in accordance with the guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

pilotED SCHOOLS, INC.

FINANCIAL STATEMENTS
Together with Independent Auditors' Report

For the Years Ended June 30, 2020 and 2019



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Donovan CPAs

Independent Auditors' Report

The Board of Directors
pilotED Schools, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of pilotED Schools, Inc., 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 (deficit), 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of pilotED Schools, Inc. as of June 30, 2020 and 2019, and the changes in its net assets (deficit), functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana
December 10, 2020

pilotED SCHOOLS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 466,485	\$ 111,775
Grants receivable	<u>20,000</u>	<u>70,000</u>
<i>Total current assets</i>	<u>486,485</u>	<u>181,775</u>
PROPERTY AND EQUIPMENT		
Building	3,058,575	3,058,575
Less: accumulated depreciation	<u>(407,810)</u>	<u>(203,905)</u>
<i>Property and equipment, net</i>	<u>2,650,765</u>	<u>2,854,670</u>
TOTAL ASSETS	<u><u>\$ 3,137,250</u></u>	<u><u>\$ 3,036,445</u></u>
LIABILITIES AND NET DEFICIT		
CURRENT LIABILITIES		
Current portion of capital lease obligation	\$ 106,613	\$ 96,089
Paycheck Protection Program note payable	185,657	-
Accounts payable and accrued expenses	11,155	8,571
Refundable advances	<u>276,885</u>	<u>321,742</u>
<i>Total current liabilities</i>	580,310	426,402
LONG-TERM LIABILITIES		
Capital lease obligation, net of current portion	<u>2,765,490</u>	<u>2,872,103</u>
<i>Total liabilities</i>	3,345,800	3,298,505
NET DEFICIT, WITHOUT DONOR RESTRICTIONS	<u>(208,550)</u>	<u>(262,060)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u><u>\$ 3,137,250</u></u>	<u><u>\$ 3,036,445</u></u>

See independent auditors' report and accompanying notes to the financial statements

pilotED SCHOOLS, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
State education support	\$ 1,194,852	\$ 588,788
Grants	1,004,625	995,972
Contributions	33,462	5,984
Other	<u>2,895</u>	<u>9,324</u>
<i>Total revenue and support</i>	<u>2,235,834</u>	<u>1,600,068</u>
EXPENSES		
Program services	1,401,787	1,237,465
Management and general	<u>780,537</u>	<u>713,235</u>
<i>Total expenses</i>	<u>2,182,324</u>	<u>1,950,700</u>
CHANGE IN NET ASSETS (DEFICIT)	53,510	(350,632)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(262,060)</u>	<u>88,572</u>
NET DEFICIT, END OF YEAR	<u><u>\$ (208,550)</u></u>	<u><u>\$ (262,060)</u></u>

See independent auditors' report and accompanying notes to the financial statements

pilotED SCHOOLS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>			<u>2019</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 358,786	\$ 563,720	\$ 922,506	\$ 313,394	\$ 502,065	\$ 815,459
Depreciation	203,905	-	203,905	203,905	-	203,905
Equipment	158,473	8,601	167,074	73,442	7,868	81,310
Interest	160,267	309	160,576	165,748	-	165,748
Employee benefits	48,677	94,901	143,578	22,973	98,997	121,970
Professional services	81,990	53,829	135,819	64,793	35,519	100,312
Food costs	97,226	-	97,226	72,658	-	72,658
Repairs and maintenance	65,225	-	65,225	40,691	-	40,691
Occupancy	64,841	-	64,841	61,703	-	61,703
Classroom and office supplies	52,209	596	52,805	65,635	419	66,054
Staff development and recruitment	34,675	-	34,675	50,063	-	50,063
Advertising	-	34,249	34,249	-	45,837	45,837
Insurance	-	20,463	20,463	-	19,938	19,938
Travel and meetings	27,220	-	27,220	23,479	-	23,479
Information technology	21,605	-	21,605	48,486	-	48,486
Other	26,688	3,869	30,557	30,495	2,592	33,087
<i>Total functional expenses</i>	<u>\$ 1,401,787</u>	<u>\$ 780,537</u>	<u>\$ 2,182,324</u>	<u>\$ 1,237,465</u>	<u>\$ 713,235</u>	<u>\$ 1,950,700</u>

See independent auditors' report and accompanying notes to the financial statements

pilotED SCHOOLS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets (deficit)	\$ 53,510	\$ (350,632)
Adjustments to reconcile change in net assets (deficit) to net cash provided by (used in) operating activities:		
Depreciation	203,905	203,905
Changes in certain assets and liabilities:		
Grants receivable	50,000	(26,944)
Accounts payable and accrued expenses	2,584	(2,310)
Refundable advances	(44,857)	(3,258)
	<u>265,142</u>	<u>(179,239)</u>
<i>Net cash provided by (used in) operating activities</i>		
FINANCING ACTIVITIES		
Principal payments on capital lease obligation	(96,089)	(90,383)
Proceeds from Paycheck Protection Program note payable	185,657	-
	<u>89,568</u>	<u>(90,383)</u>
<i>Net cash provided by (used in) financing activities</i>		
NET CHANGE IN CASH	354,710	(269,622)
CASH, BEGINNING OF YEAR	<u>111,775</u>	<u>381,397</u>
CASH, END OF YEAR	<u>\$ 466,485</u>	<u>\$ 111,775</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 160,576	\$ 165,748

See independent auditors' report and accompanying notes to the financial statements

pilotED SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – PilotED Schools, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School commenced operations as a public charter school on July 1, 2018 under Indiana Code 20-24, and is sponsored by the Office of Education Innovation ("OEI") of the Mayor of the City of Indianapolis. The charter is effective through June 30, 2025 and is renewable thereafter by mutual consent. The School served approximately 155 students in kindergarten through third grade during the 2019-2020 school year. During the 2018-2019 school year, the School served approximately 85 students in kindergarten through second grade.

Basis of Accounting and Use of Estimates – 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 ("U.S. GAAP"), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions - which include unrestricted resources that are available for the operating objectives of the School; and
- net assets with donor restrictions - which represent resources restricted by donors for specific time or purpose.

As of June 30, 2020 and 2019, the School had only net assets without donor restrictions.

Revenue Recognition – Revenues generally come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment and paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A significant portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

The School has elected to defer implementation of Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes the implementation of ASU 2014-09 will not significantly affect how the School reports revenue.

pilotED SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2020 and 2019.

Grants Receivable – Grants receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$5,000 are charged to expense as incurred.

Depreciation for the building is provided over the life of the capital lease (15 years) using the straight-line method.

Taxes on Income – The School has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2020 and 2019, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending after 2016 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 10, 2020, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

NOTE 2 - REFUNDABLE ADVANCES

The School has received multiple grants during the years ended June 30, 2020 and 2019. The grants must be spent in accordance with the submitted budgets and any funds not expended for the designated purposes must be returned. Accordingly, the revenue is recognized as approved expenditures are incurred. Refundable advances as of June 30, 2020 and 2019 represent grants received from Walton Family Foundation, Opportunity 180, and Charter School Program Quality Counts.

pilotED SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 3 - CAPITAL LEASE OBLIGATION

The School leases its building under a capital lease obligation maturing June 30, 2033 with two five-year renewal options. At June 30, 2020 and 2019, the accumulated depreciation of the building was \$407,810 and \$203,905, respectively.

Following is a schedule of future minimum lease payments under the capital lease for the years ending June 30 and present value of the net minimum lease payments as of June 30, 2020:

2021		\$	263,303
2022			271,202
2023			279,338
2024			287,718
2025			296,350
Thereafter			<u>2,716,144</u>
			4,114,055
Less: amount representing interest			<u>(1,241,952)</u>
		\$	<u>2,872,103</u>

NOTE 4 - PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act which includes the Paycheck Protection Program (“PPP”) administered through the Small Business Administration. The proceeds from the PPP notes payable can be used for costs related to payroll, employee healthcare, rent, and utilities. On April 24, 2020, the School was granted a loan from JPMorgan Chase Bank, N.A. in the amount of \$185,657, pursuant to the PPP under Division A, Title I of the CARES Act. The note matures on April 24, 2022 and bears interest at a rate of 1.00%. To the extent that the funds are used for qualifying expenses under the program during the 24-week period beginning on the date of the loan funding, the School may apply for loan forgiveness. The School has determined the PPP note payable represents a financial liability and has accounted for it in accordance with FASB ASC 470, *Simplifying the Classification of Debt*, until forgiveness is obtained. Management believes the funds will be used for qualifying expenses and will be substantially, if not fully, forgiven. Accordingly, the note payable is included as a current liability as of June 30, 2020.

pilotED SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 5 - COMMITMENTS

The School operates under a charter granted by OEI. As the sponsoring organization, OEI exercises certain oversight responsibilities. Beginning on July 1st before the School's fourth school year, OEI will assess a fee equal to 1% of the basic tuition support received by the School. No management fees were paid during the years ended June 30, 2020 and 2019.

The charter agreement requires the School to establish an escrow account of no less than \$30,000 should a dissolution occur. As of June 30, 2020, this account has not been established.

NOTE 6 - RETIREMENT PLANS

All employees are eligible to participate in a Section 401(k) defined contribution retirement plan sponsored by the School. Under this plan, the School may contribute a discretionary match up to 4% of compensation, not to exceed \$4,000 per employee.

Retirement plan expense under plan was \$10,987 and \$9,824 for the years ended June 30, 2020 and 2019, respectively.

NOTE 7 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to families residing in Marion County in Indiana and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

In addition, deposits maintained at JP Morgan Chase Bank, N.A. are insured up to the FDIC insurance limit of \$250,000. Funds held as of June 30, 2020 exceeded the FDIC insurance limit.

pilotED SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 8 - LIQUIDITY

The School's financial assets include cash and grants receivable. Financial assets at June 30, 2020 and 2019 totaled \$486,485 and \$181,775, respectively, all of which were available to meet cash needs for general expenditures within a year, including expenditures covered by the Walton Family Foundation, Opportunity 180, and Charter School Program Quality Counts grants (See Note 2).

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets (deficit). Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

pilotED SCHOOLS, INC.
OTHER REPORT
For the Year Ended June 30, 2020

The reports presented herein were prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of pilotED Schools, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.