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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

February 8, 2021

Charter School Board
Matchbook Learning Schools of Indiana, Inc.
1163 N Belmont Ave
Indianapolis, IN 46222

We have reviewed the audit report of Matchbook Learning Schools of Indiana, 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 Matchbook Learning Schools of Indiana, 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.

We call your attention to the findings in the report on pages 19 through 21. Please see the Schedule of Findings and Questioned Costs for complete details related to the findings. Management's Corrective Action Plan appears on page 22.

We call your attention to the Emphasis of Matter paragraph included in the Independent Auditors' Report and further detailed in Notes 2 and 3.

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 Matchbook Learning Schools of Indiana, 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.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

MATCHBOOK LEARNING SCHOOLS OF INDIANA, 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
Matchbook Learning Schools of Indiana, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Matchbook Learning Schools of Indiana, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and change 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinion

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

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Emphasis of Matters

As discussed in Note 2 to the financial statements, net assets as of June 30, 2019 have been adjusted to correct an error pertaining to grant revenues that should not have been recognized during the year ended June 30, 2019 in the amount of \$70,149. This correction is reflected in the accompanying financial statements as a decrease in grant revenue during the year ended June 30, 2019 and a corresponding decrease in grants receivable and net assets as of June 30, 2019.

As discussed in Note 3 to the financial statements, Matchbook Learning Schools of Indiana, Inc. recorded in-kind contributions and offsetting expenses from Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools (“IPS”), a related party, totaling \$2,244,888 and \$1,927,119 during the years ended June 30, 2020 and 2019, respectively. These in-kind transactions represent approximately 26% of total revenue and support and 27% of total expenses for the year ended June 30, 2020 and 24% of total revenue and support and 26% of total expenses for the year ended June 30, 2019. These amounts are calculated by IPS using significant estimates and judgments and are recorded by management of Matchbook Learning Schools of Indiana, Inc. as presented.

Our opinion is not modified with respect to these matters.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 January 29, 2021 on our consideration of Matchbook Learning Schools of Indiana, Inc.’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Matchbook Learning Schools of Indiana, Inc.’s internal control over financial reporting and compliance.

DONOVAN



Indianapolis, Indiana
January 29, 2021

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,002,381	\$ 695,421
Grants receivable	222,762	257,911
Prepaid expenses	<u>9,888</u>	<u>19,337</u>
<i>Total current assets</i>	<u>2,235,031</u>	<u>972,669</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	52,689	47,474
Software	149,629	149,629
Less: accumulated depreciation	<u>(111,724)</u>	<u>(45,713)</u>
<i>Property and equipment, net</i>	<u>90,594</u>	<u>151,390</u>
TOTAL ASSETS	<u><u>\$ 2,325,625</u></u>	<u><u>\$ 1,124,059</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 145,716	\$ 103,475
Accrued expenses	390,109	326,911
Paycheck Protection Program note payable	752,000	-
Note payable to Indianapolis Public Schools	<u>-</u>	<u>20,000</u>
<i>Total liabilities</i>	<u>1,287,825</u>	<u>450,386</u>
NET ASSETS, WITHOUT DONOR RESTRICTIONS		
Board-designated	500,000	-
Undesignated	<u>537,800</u>	<u>673,673</u>
<i>Total net assets, without donor restrictions</i>	<u>1,037,800</u>	<u>673,673</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,325,625</u></u>	<u><u>\$ 1,124,059</u></u>

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

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
Student-based allocation funding from Indianapolis Public Schools	\$ 4,576,159	\$ 4,164,923
Grants	1,750,556	2,025,075
In-kind contributions from Indianapolis Public Schools	2,244,888	1,927,119
Contributions	9,664	24,765
Interest	1,272	1,924
Other	844	-
	<u>8,583,383</u>	<u>8,143,806</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	6,638,995	5,671,761
Management and general	1,580,261	1,681,380
	<u>8,219,256</u>	<u>7,353,141</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	364,127	790,665
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>673,673</u>	<u>(116,992)</u>
NET ASSETS, END OF YEAR	<u>\$ 1,037,800</u>	<u>\$ 673,673</u>

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

MATCHBOOK LEARNING SCHOOLS OF INDIANA, 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>
In-kind expenses:						
Occupancy	\$ 1,228,513	\$ -	\$ 1,228,513	\$ 1,211,883	\$ -	\$ 1,211,883
Student transportation	475,345	-	475,345	442,021	-	442,021
Repairs and maintenance	243,076	-	243,076	208,864	-	208,864
Special education	222,073	-	222,073	-	-	-
Security services	-	75,881	75,881	-	64,351	64,351
<i>Total in-kind expenses</i>	<u>2,169,007</u>	<u>75,881</u>	<u>2,244,888</u>	<u>1,862,768</u>	<u>64,351</u>	<u>1,927,119</u>
Direct expenses:						
Salaries and wages	2,401,937	1,031,282	3,433,219	2,010,544	981,402	2,991,946
Employee benefits	680,146	243,446	923,592	467,286	237,822	705,108
Professional services	254,656	176,916	431,572	347,997	150,993	498,990
Food costs	258,672	-	258,672	296,075	-	296,075
Curriculum	216,227	-	216,227	402,175	-	402,175
Repairs and maintenance	212,663	-	212,663	-	115,221	115,221
Classroom and office supplies	137,557	2,695	140,252	80,325	46,415	126,740
Information technology	93,440	-	93,440	72,548	3,750	76,298
Travel and meetings	47,268	21,540	68,808	36,029	11,685	47,714
Depreciation	66,011	-	66,011	45,713	-	45,713
Insurance	42,799	-	42,799	4,876	15,944	20,820
Staff development	34,591	1,130	35,721	28,452	9,992	38,444
Occupancy	130	25,000	25,130	-	25,034	25,034
Other	19,565	2,371	21,936	7,883	18,771	26,654
Advertising	4,326	-	4,326	9,090	-	9,090
<i>Total direct expenses</i>	<u>4,469,988</u>	<u>1,504,380</u>	<u>5,974,368</u>	<u>3,808,993</u>	<u>1,617,029</u>	<u>5,426,022</u>
<i>Total functional expenses</i>	<u>\$ 6,638,995</u>	<u>\$ 1,580,261</u>	<u>\$ 8,219,256</u>	<u>\$ 5,671,761</u>	<u>\$ 1,681,380</u>	<u>\$ 7,353,141</u>

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

MATCHBOOK LEARNING SCHOOLS OF INDIANA, 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	\$ 364,127	\$ 790,665
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,011	45,713
Changes in certain assets and liabilities:		
Grants receivable	35,149	(257,911)
Prepaid expenses	9,449	(19,337)
Accounts payable	42,241	36,000
Accrued expenses	63,198	326,911
	<u>580,175</u>	<u>922,041</u>
<i>Net cash provided by operating activities</i>		
	<u>580,175</u>	<u>922,041</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(5,215)</u>	<u>(197,103)</u>
FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program note payable	752,000	-
Principal repayments on note payable to Indianapolis Public Schools	<u>(20,000)</u>	<u>(300,000)</u>
	<u>732,000</u>	<u>(300,000)</u>
<i>Net cash provided by (used in) financing activities</i>		
	<u>732,000</u>	<u>(300,000)</u>
NET CHANGE IN CASH	1,306,960	424,938
CASH, BEGINNING OF YEAR	<u>695,421</u>	<u>270,483</u>
CASH, END OF YEAR	<u>\$ 2,002,381</u>	<u>\$ 695,421</u>

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

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Matchbook Learning Schools of Indiana, 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. The School is sponsored by the Office of Education Innovation 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 610 students in grades kindergarten through eighth during the 2019-2020 school year (560 students during the 2018-2019 school year).

In March 2018, the School entered into an Innovation Network Charter School Agreement with Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools ("IPS"), to operate a charter school within an IPS building. The agreement is for a term of five years, ending June 30, 2023, and renews automatically for an additional five-year term unless either party provides written notice at least 180 days prior to the expiration of the agreement. Under the agreement, IPS will pay to the School the amount the School would receive from the State of Indiana for state basic tuition support and complexity grant funding as if the School were a traditional charter school. The agreement can be terminated by either party within 30 days of written notice for material breach of the agreement, by IPS at the end of the school year for poor academic performance given written notice to the school 180 days prior, or by both parties by mutual consent effective as of a mutually agreeable date.

During the School's pre-opening phase, IPS loaned funds through an interest-free note payable to be repaid through withholdings of regular IPS payments. This note had a balance of \$20,000 as of June 30, 2019, which was settled in full during the year ended June 30, 2020.

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.

Included in net assets without donor restrictions as of June 30, 2020 are Board-designated net assets of \$500,000 to establish a "Future Needs Fund." These funds may be used at the Board's discretion to further the strategic objectives of the School or to finance unanticipated or unbudgeted future expenses.

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenue Recognition – The majority of the revenue comes from IPS as part of the Innovation Network Charter School Agreement. Under the agreement with IPS, the School receives an amount per student in equal portion as if the School were organized as a traditional charter school. Funding from IPS is received monthly. 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 revenues 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.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists 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 programs and legislation enacted by the State of Indiana. The School believes 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 over \$1,000 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 small equipment purchases are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. Furniture and equipment is depreciated over three to five years. Software is depreciated over three years.

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.

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, continued – 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. Since the School was established as a nonprofit organization effective July 2017, all tax years are currently open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through January 29, 2021, 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 - PRIOR PERIOD ADJUSTMENT

Net assets as of June 30, 2019 have been adjusted to correct an error pertaining to grant revenues that should not have been recognized during the year ended June 30, 2019. The prior period adjustment of \$70,149 is reflected in the accompanying financial statements as a decrease in grants revenue during the year ended June 30, 2019 and a corresponding decrease in grants receivable and net assets as of June 30, 2019.

NOTE 3 - VALUATION OF IN-KIND SERVICES

The School has recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$2,244,888 and \$1,927,119 during the years ended June 30, 2020 and 2019, respectively. These in-kind transactions represent approximately 26% of total revenue and support and 27% of total expenses for the year ended June 30, 2020 and 24% of total revenue and support and 26% of total expenses for the year ended June 30, 2019. The values of these in-kind services are calculated by IPS using significant estimates and judgments and are recorded by management of the School as presented.

NOTE 4 - LINE OF CREDIT

The School had a line of credit with The National Bank of Indianapolis with maximum borrowings available of \$150,000. The line of credit matured October 2020 and bore interest at the lender's prime rate plus 2.75% (6.0% at June 30, 2020). The line of credit was not renewed by the School. There was no outstanding balance on the line of credit as of June 30, 2020 and 2019.

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

NOTE 5 - 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 May 15, 2020, the School was granted a note payable from Idaho First Bank in the amount of \$752,000 pursuant to the PPP under Division A, Title I of the CARES Act. The note matures on May 15, 2022 and bears interest at a rate of 1.00%. To the extent 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 qualified expenses and will be fully forgiven. Accordingly, the note payable is included as a current liability on the statement of financial position as of June 30, 2020.

NOTE 6 - RETIREMENT PLANS

The School maintains a defined contribution Section 401(k) retirement plan covering substantially all employees. The plan allows employees to make salary deferral contributions and provides that the School will make matching contributions on the first 5% of elective contributions. Retirement plan expense was \$87,065 and \$41,698 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 and surrounding counties 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. The School also receives substantial financial assistance from IPS in the form of in-kind contributions covering occupancy, repairs and maintenance, student transportation, special education, and security services. Changes to the Innovation Network Charter School Agreement with IPS 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2020 and 2019, all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at The National Bank of Indianapolis are insured up to the FDIC insurance limit of \$250,000. Funds held at this financial institution exceeded the FDIC insurance limit as of June 30, 2020 and 2019.

MATCHBOOK LEARNING SCHOOLS OF INDIANA, 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 totaling \$2,225,143 and \$953,332 as of June 30, 2020 and 2019, respectively. The School has Board-designated net assets of \$500,000 as of June 30, 2020 for the purpose of establishing a "Future Needs Fund." While these funds are not immediately available to meet general expenditures within one year, they may be released from designation at the Board's discretion. All financial assets as of June 30, 2019 are available to meet cash needs for general expenditures within one year.

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. 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.

SUPPLEMENTARY INFORMATION

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

Federal Grantor Agency/Pass-Through Entity/Cluster Title/Program Title/ Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 58,840
COVID-19 School Breakfast Program	10.553		3,161
National School Lunch Program	10.555		247,853
COVID-19 National School Lunch Program	10.555		<u>13,666</u>
<i>Total U.S. Department of Agriculture</i>			<u>323,520</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Grants to Local Educational Agencies	84.010	18611-001-PN01	544,927
Special Education Cluster			
Special Education - Grants to States	84.027	19611-621-PN01	154,132
Title II, Part A, Supporting Effective Instruction State Grants	84.367	7000-367A180013	21,825
Title IV, Part A, Student Support and Academic Enrichment Program	84.424	2018-424-375 2019-424-305	<u>43,635</u>
<i>Total U.S. Department of Education</i>			<u>764,519</u>
<i>Total federal awards expended</i>			<u>\$ 1,088,039</u>

See independent auditors' report and accompanying notes to this schedule

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Matchbook Learning Schools of Indiana, Inc. (the "School") under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, change in net assets, functional expenses, or cash flows of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

The School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



Donovan CPAs

INDEPENDENT AUDITORS' 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

The Board of Directors
Matchbook Learning Schools of Indiana, Inc.

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 Matchbook Learning Schools of Indiana, Inc. (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2021.

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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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. The results of our tests disclosed one instance of a material weakness in internal control that was required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding No. 2020-001. Additional material weaknesses may exist that have not been identified.

www.cpadonovan.com

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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 determination of financial statement amounts. 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*.

Matchbook Learning Schools of Indiana, Inc.'s Response to Finding

The School's response to the finding identified in our audit is described in the accompanying corrective action plan on page 22. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

DONOVAN

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

Indianapolis, Indiana
January 29, 2021



Donovan CPAs

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *UNIFORM GUIDANCE*

The Board of Directors
Matchbook Learning Schools of Indiana, Inc.

Report on Compliance for Major Federal Program

We have audited The School's (the "School") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2020. The School's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program under audit. However, our audit does not provide a legal determination of the School's compliance.

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Opinion on Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-002. Our opinion on the major federal program is not modified with respect to this matter.

The School's response to the noncompliance finding identified in our audit are described in the corrective action plan on page 22. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2020-002 to be a significant deficiency.

The School's response to the noncompliance finding identified in our audit is included on pages 22. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN

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

Indianapolis, Indiana
January 29, 2021

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	Yes
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness identified?	No
• Significant deficiency identified?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

II. Financial Statement Findings

FINDING 2020-001 LACK OF FINANCIAL OVERSIGHT
MATERIAL WEAKNESS

Condition

Several material adjustments were required to be proposed and recorded during the audit for the financial statements to be free of material misstatement. Those adjustments resulted in the following increases/(decreases) to the financial statements:

Assets	\$ 126,621
Liabilities	390,109
Net assets, beginning of year	(70,149)
Revenue	196,770
Expenses	390,109

Additionally, the Schedule of Expenditures of Federal Awards presented in the audited financial statements as of and for the year ended June 30, 2019 included \$70,149 in federal expenditures which were never claimed by Matchbook Learning Schools of Indiana, Inc. As a result, grants revenues were overstated by the same amount in the prior year, necessitating a prior period adjustment to correct the current year reporting. This effect of this prior period adjustment is included in the summarized table above.

Criteria

2 CFR part 200.510(a) requires that “the auditee must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited.”

Cause

Matchbook Learning Schools of Indiana, Inc. did not have sufficient financial oversight to ensure all transactions were substantiated, grant revenues were recorded in the proper period, all accounts were reconciled timely and accurately, and grant claims were processed timely.

Effect

Material misstatements existed in the unadjusted financial records prior to the audit, including a misstatement in the prior audited financial statements.

Recommendation

We recommend Matchbook Learning Schools of Indiana, Inc. develop internal controls to ensure proper financial oversight is provided.

Views of Responsible Officials

Matchbook Learning Schools of Indiana, Inc.’s Corrective Action Plan is included on page 22.

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

III. Federal Award Findings and Questioned Costs

FINDING 2020-002 MAINTENANCE OF EFFORT
SIGNIFICANT DEFICIENCY

Federal Program: Title I
CFDA Number: 84.010

Condition

The Indiana Department of Education completes the maintenance of effort calculation using the Form 9 report issued by Matchbook Learning Schools of Indiana, Inc., which is a cash-basis report. Review of Matchbook Learning Schools of Indiana, Inc.'s Form 9 found the report to be unreliable. Expenditures per the Form 9 totaled approximately \$3,993,000 for the period of July 1, 2019 to June 30, 2020. Cash basis expenses per Matchbook Learning Schools of Indiana, Inc.'s financial records totaled approximately \$5,828,000.

Criteria

2 CFR part 200, Appendix XI, Compliance Supplement 2020, Section 4-84.000-13, states "An LEA may receive funds under an applicable program only if the SEA finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from state and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waved".

Cause

Matchbook Learning Schools of Indiana, Inc. was not reporting expenses in line with the guidelines set by the Indiana Department of Education.

Effect

Maintenance of effort calculations prepared by the Indiana Department of Education could be impacted by incorrect reporting of expense transactions.

Recommendation

We recommend Matchbook Learning Schools of Indiana, Inc. develop internal controls to ensure expenses are properly reported on the Form 9 report in line with guidelines.

Views of Responsible Officials and Planned Corrective Actions

Matchbook Learning Schools of Indiana, Inc.'s Corrective Action Plan is included on page 22.



29 Jan 2021

Don Stewart
Director of Finance
1163 N. Belmont, Indianapolis, IN. 46222

Subject: Single Audit Findings

To: Jason Schultz Donavan CPA's

**FINDING 2020-001 LACK OF FINANCIAL OVERSIGHT
MATERIAL WEAKNESS**

Matchbook Learning Schools of Indiana, Inc. did not have sufficient financial oversight to ensure all transactions were substantiated, grant revenues were recorded in the proper period, all accounts were Reconciled timely and accurately, and grant claims were processed timely.

The schools finance department and our accounting firm reconciled all grants during the audit to ensure revenue was correct for the audited period. The school is implementing more controls for the current audit period to allow for more timely reconciliation during the year. With the controls in place this will allow for timeliness and accuracy with monthly reconciliations for all grants. The Director of Finance is currently working on documents with the accountants for the extra internal controls the school is putting in place and will be complete by the 2nd week of February 2021.

**FINDING 2020-002 MAINTENANCE OF EFFORT
SIGNIFICANT DEFICIENCY**

Matchbook Learning Schools of Indiana, Inc. was not reporting expenses in line with the guidelines set by the Indiana Department of Education with the Form 9.

The Director of Finance got approval to allow the accounting firm the school employs to assist with more accurately reporting the input required for completion of the Form 9 in March of 2020. The Director of Finance will continue to use this tool to assist in accurately reporting data to the Form 9. The Director of Finance is also working with the Indiana Charter Network to ensure accuracy for the January 2021 submission of the Form 9 which is do on 31 Jan of 2021.

Don Stewart
Director of Finance
Matchbook Learning

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2020

FINDING NO. 2019-001 ACTIVITIES ALLOWED OR UNALLOWED
MATERIAL WEAKNESS

Federal Program: Charter School Program
CFDA Number: 84.282

Condition

Matchbook Learning Schools of Indiana, Inc. overspent funds in certain budget categories by greater than 10% without requesting an amendment to the approved grant application budget.

Recommendation

It was recommended Matchbook Learning Schools of Indiana, Inc. develop internal controls governing the allocation of expenditures to grant budgets. These controls should specifically address ensuring invoices are in line with the submitted grant application or applying for the appropriate amendments from the Indiana Department of Education. It was also recommended that Matchbook Learning Schools of Indiana, Inc. should contact the Indiana Department of Education to communicate the error noted herein and discuss options to remedy the error.

Current Status

No additional expenditures were made towards this program during the fiscal year ended June 30, 2020. No similar issues were identified in other programs during the fiscal year ended June 30, 2020.

FINDING NO. 2019-002 PROCUREMENT AND SUSPENSION AND DEBARMENT
SIGNIFICANT DEFICIENCY

Federal Program: Charter School Program
CFDA Number: 84.282

Condition

Matchbook Learning Schools of Indiana, Inc.'s procurement policy was not in line with OMB Circular A-110 (2 CFR part 215) as it did not contain procedures for when sealed bids are required. Federal guidelines require a sealed bid for any purchases exceeding \$150,000. Matchbook Learning Schools of Indiana, Inc.'s policies also omitted procedures necessary to confirm if a vendor is suspended or debarred. Additionally, no documentation was retained to confirm Matchbook Learning Schools of Indiana, Inc. was properly applying its procurement policy.

Recommendation

It was recommended that Matchbook Learning Schools of Indiana, Inc. update its procurement policy to comply with OMB Circular A-110 (2 CFR part 215). It was also recommended Matchbook Learning Schools of Indiana, Inc. implement controls to document the use of its procurement policies. These controls should specifically address Matchbook Learning Schools of Indiana, Inc.'s internal processes of evaluating vendors by purchase threshold.

Current Status

Matchbook Learning Schools of Indiana, Inc. implemented controls to ensure copies of quotes from multiple vendors were required and reviewed prior to procurement. Matchbook Learning Schools of Indiana, Inc. implemented a two-step approval process to ensure proper internal controls were adhered to. Documentation of multiple quotes are retained to support compliance with the regulations.

MATCHBOOK LEARNING SCHOOLS OF INDIANA, INC.

OTHER REPORT

For the Year Ended June 30, 2020

The reports presented herein were prepared in addition to another official report prepared for Matchbook Learning Schools of Indiana, Inc. as listed below:

Supplemental Audit Report of Matchbook Learning Schools of Indiana, 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*.