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April 21, 2022

Charter School Board  
The PATH School, Inc.  
653 N. Somerset Ave  
Indianapolis, IN 46222

We have reviewed the audit report of The PATH School, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2020 to June 30, 2021. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of The PATH School, Inc. as of June 30, 2021 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 Emphasis of Matter paragraph included in the Independent Auditors' Report and further detailed in Note 4.

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 The PATH School, 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 black ink that reads "Tammy R. White".

Tammy R. White, CPA  
Deputy State Examiner

**THE PATH SCHOOL, INC.**  
FINANCIAL STATEMENTS  
Together with Independent Auditors' Report  
For the Year Ended June 30, 2021



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# Donovan CPAs

## *Independent Auditors' Report*

The Board of Directors  
The PATH School, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The PATH School, Inc., which comprise the statement of financial position as of June 30, 2021, 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.

### **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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 The PATH School, Inc. as of June 30, 2021, and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 4 to the financial statements, The PATH School, 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 \$1,944,321 during the year ended June 30, 2021. These in-kind transactions represent approximately 27% of total revenue and support and 27% of total expenses for the year ended June 30, 2021. These amounts are calculated by IPS using significant estimates and judgments and are recorded by management of The PATH School, Inc., as presented. Our opinion is not modified with respect to this matter.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized initial "D" that loops around the first few letters.

Indianapolis, Indiana  
January 26, 2022

**THE PATH SCHOOL, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2021**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 376,311
Grants receivable	508,946
Prepaid expenses	<u>27,564</u>
<i>Total current assets</i>	<u>912,821</u>

**PROPERTY AND EQUIPMENT**

Furniture and equipment	12,850
Less: accumulated depreciation	<u>(2,945)</u>
<i>Property and equipment, net</i>	<u>9,905</u>

**TOTAL ASSETS**

\$ 922,726

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 583,221
Refundable advance	<u>25,512</u>
<i>Total current liabilities</i>	608,733

**NET ASSETS, WITHOUT DONOR RESTRICTIONS**

313,993

**TOTAL LIABILITIES AND NET ASSETS**

\$ 922,726

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

**THE PATH SCHOOL, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**For the Year Ended June 30, 2021**

**REVENUE AND SUPPORT**

Student-based allocation funding from IPS	\$ 3,867,539
In-kind contributions from IPS	1,944,321
Grant revenue	1,357,908
Contributions	10,303
Other income	21,124
	21,124
<i>Total revenue and support</i>	7,201,195

**EXPENSES**

Program services	5,749,958
Management and general	1,466,815
	1,466,815
<i>Total expenses</i>	7,216,773

**CHANGE IN NET ASSETS FROM OPERATIONS** (15,578)

**PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS INCOME** 41,600

**CHANGE IN NET ASSETS** 26,022

**NET ASSETS, BEGINNING OF YEAR** 287,971

**NET ASSETS, END OF YEAR** \$ 313,993

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

**THE PATH SCHOOL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2021**

	<b><u>Program Services</u></b>	<b><u>Management and General</u></b>	<b><u>Total</u></b>
In-kind expenses:			
Occupancy	\$ 1,318,239	\$ -	\$ 1,318,239
Student transportation	569,020	-	569,020
Security services	-	57,062	57,062
	<u>1,887,259</u>	<u>57,062</u>	<u>1,944,321</u>
<i>Total in-kind expenses</i>			
Direct expenses:			
Salaries and wages	2,273,177	850,816	3,123,993
Employee benefits	355,289	167,157	522,446
Professional services	241,945	205,430	447,375
Classroom and office supplies	296,293	121,335	417,628
Food costs	187,557	-	187,557
Equipment	170,173	-	170,173
Occupancy	164,037	-	164,037
Staff development	51,988	36,856	88,844
Technology services	66,120	-	66,120
Insurance	29,744	-	29,744
Transportation	10,873	-	10,873
Advertising	-	9,204	9,204
Depreciation	2,945	-	2,945
Repairs and maintenance	1,477	-	1,477
Travel and meetings	-	1,093	1,093
Other	11,081	17,862	28,943
	<u>3,862,699</u>	<u>1,409,753</u>	<u>5,272,452</u>
<i>Total direct expenses</i>			
	<u>\$ 5,749,958</u>	<u>\$ 1,466,815</u>	<u>\$ 7,216,773</u>
<i>Total functional expenses</i>			

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

**THE PATH SCHOOL, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2021**

**OPERATING ACTIVITIES**

Change in net assets	\$ 26,022
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Paycheck Protection Program loan forgiveness income	(41,600)
Depreciation	2,945
Change in certain assets and liabilities:	
Grants receivable	(427,121)
Prepaid expenses	(27,564)
Accounts payable and accrued expenses	574,426
Refundable advance	<u>25,512</u>
 <i>Net cash provided by operating activities</i>	 132,620

**INVESTING ACTIVITIES**

Purchases of property and equipment	(12,850)
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**FINANCING ACTIVITIES**

Repayment of IPS note payable	<u>(312,000)</u>
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**NET CHANGE IN CASH**

(192,230)

**CASH, BEGINNING OF YEAR**

568,541

**CASH, END OF YEAR**

\$ 376,311

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

**THE PATH SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General – The PATH School, 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, 2020 under Indiana Code 20-24. The School is sponsored by the Office of Education Innovation (“OEI”) of the Mayor of the City of Indianapolis. The charter is effective through June 30, 2027 and is renewable thereafter by mutual consent. The School served approximately 515 students in kindergarten through eighth grade during the 2020-2021 school year.

On March 19, 2020, the School entered into an Innovation Network Charter School Agreement with Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools (“IPS”). The agreement, under Indiana Code 20-25.5-1, allows IPS to enter into an agreement with the School to operate a charter school within an IPS building. The agreement is for a term of five years, with an automatic renewal for additional five-year terms. 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 annually by either party, by providing written notice at least 180 days prior to the end of the school year.

The School received valuable in-kind services from IPS for rent and other services during the year ended June 30, 2021. The value of these services were estimated and have been reflected as in-kind contributions and expenses. See Note 4.

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, 2021, the School had only net assets without donor restrictions.

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.

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, 2021.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs 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.

**THE PATH SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

Furniture and equipment are depreciated using the straight-line method over the respective asset's estimated useful life (4 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 year ended June 30, 2021, 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. Tax years ended after June 30, 2017 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through January 26, 2022, 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 - REVENUE RECOGNITION**

Revenue Recognition Standard – Effective July 1, 2020, the School adopted Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 replaced previous revenue recognition guidance under U.S. GAAP and requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The School has applied the provisions of this ASU to the June 30, 2021 financial statements. There was no material impact on the financial statements.

Revenue Recognition Policy – As discussed previously in Note 1, the majority of the School's revenue and support is provided by IPS as part of the Innovation Network School Agreement. Under the agreement with IPS, the School receives monthly funding from IPS in accordance with a student-based allocation formula. Funding includes both fixed and variable components. The variable funding depends upon certain attributes including the number of students, student grades, poverty status, and other factors. Revenue is recognized in the year in which the educational services are rendered.

**THE PATH SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2021**

**NOTE 2 - REVENUE RECOGNITION, Continued**

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. Incurring approved costs under each grant is considered satisfaction of the performance obligations.

The School also receives contributions and grants from other agencies and individuals, which are recorded in accordance with the terms of the underlying agreements.

Student fees are recognized in the year in which the services are rendered.

Disaggregation of Revenue – Revenue is disaggregated on the statement of activities and change in net assets.

**NOTE 3 - PRIOR PERIOD FINANCIAL ACTIVITY**

Prior to the year ended June 30, 2021, (the School’s first year of operations), the School received grants and other funds in anticipation of opening the School. The School’s statement of financial position as of June 30, 2020 was as follows:

Cash	\$	568,541
Grants receivable		81,825
<i>Total assets</i>	\$	650,366
Accounts payable and accrued expenses	\$	8,795
Paycheck Protection Program loan payable		41,600
IPS loan payable		312,000
<i>Total liabilities</i>		362,395
Net assets, without donor restrictions		287,971
<i>Total liabilities and net assets</i>	\$	650,366

**NOTE 4 - VALUATION OF IN-KIND SERVICES**

The School has recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$1,944,321 during the year ended June 30, 2021. These in-kind transactions represent approximately 27% of total revenue and support and 27% of total expenses for the year ended June 30, 2021. 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.

**THE PATH SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2021**

**NOTE 5 - REFUNDABLE ADVANCE**

The School received grants during the year ended June 30, 2021, some of which must be spent in accordance with the submitted budgets with any funds not expended for the designated purposes returned. Accordingly, the revenue is recognized as approved expenditures are incurred. Refundable advance as of June 30, 2021 represents unspent funds from the Non-English Speaking Program.

**NOTE 6 - PAYCHECK PROTECTION PROGRAM**

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 loan payable can be used for costs related to payroll, employee healthcare, rent, and utilities. If used for qualified expenses, the loan may be forgiven. On May 7, 2020, the School was granted a loan from Fifth Third Bank, National Association in the amount of \$41,600, pursuant to the PPP under Division A, Title I of the CARES Act. The note was forgiven in full on February 10, 2021 and recorded as loan forgiveness income during the year ended June 30, 2021.

**NOTE 7 - RETIREMENT PLAN**

The School offers a 401(k) defined contribution retirement plan for employees who have attained age 21. The School will match employee deferrals dollar for dollar up to 3% of compensation. The School may also make discretionary contributions.

Total contributions by the School to the 401(k) plan were \$24,442 during the year ended June 30, 2021.

**NOTE 8 - COMMITMENTS**

As the School’s sponsoring organization, OEI exercises certain oversight responsibilities. Beginning with the 2023-2024 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 year ended June 30, 2021.

The charter agreement requires the School to establish a cash escrow account of no less than \$30,000 should a dissolution occur, which can be funded at \$10,000 per year each of the first three years of operation. As of June 30, 2021, this account has not been established.

**THE PATH SCHOOL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2021**

**NOTE 9 - RISKS AND UNCERTAINTIES**

The School provides education instruction services to families primarily residing in Marion County, 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 and/or the agreements 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. In addition, deposits maintained at Fifth Third Bank are insured up to the FDIC insurance limit.

**NOTE 10 - LIQUIDITY**

Financial assets held by the School include cash and grants receivable. Financial assets at June 30, 2021 total \$885,257, all of which 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 11 - FUNCTIONAL EXPENSE REPORTING**

The costs of providing the educational activities have been summarized on a functional basis in the statement 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.

**THE PATH SCHOOL, INC.**  
**OTHER REPORT**  
**For the Year Ended June 30, 2021**

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

Supplemental Audit Report of The PATH School, 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*.