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December 2, 2019

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, 2018 to June 30, 2019. 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, 2019 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 Year Ended June 30, 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 statement of financial position as of June 30, 2019, and the related statements of activities and change in net assets (deficit), 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 pilotED Schools, Inc. as of June 30, 2019, and the changes in its net assets (deficit), functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The letters are cursive and connected, with a large initial "D".

Indianapolis, Indiana
November 22, 2019

pilotED SCHOOLS, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 111,775
Grants receivable	<u>70,000</u>
<i>Total current assets</i>	<u>181,775</u>

PROPERTY AND EQUIPMENT

Building	3,058,575
Less: accumulated depreciation	<u>(203,905)</u>
<i>Property and equipment, net</i>	<u>2,854,670</u>

TOTAL ASSETS

\$ 3,036,445

LIABILITIES AND NET DEFICIT

CURRENT LIABILITIES

Current portion of capital lease obligation	\$ 96,089
Accounts payable and accrued expenses	8,571
Refundable advances	<u>321,742</u>
<i>Total current liabilities</i>	426,402

LONG-TERM LIABILITIES

Capital lease obligation, net of current portion	<u>2,872,103</u>
<i>Total liabilities</i>	3,298,505

NET DEFICIT, WITHOUT DONOR RESTRICTIONS

(262,060)

TOTAL LIABILITIES AND NET DEFICIT

\$ 3,036,445

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

pilotED SCHOOLS, INC.
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIT)
For the Year Ended June 30, 2019

REVENUE AND SUPPORT

State education support	\$ 588,788
Grants	995,972
Contributions	5,984
Other	<u>9,324</u>
 <i>Total revenue and support</i>	 <u>1,600,068</u>

EXPENSES

Program services	1,237,465
Management and general	<u>713,235</u>
 <i>Total expenses</i>	 <u>1,950,700</u>

CHANGE IN NET ASSETS (350,632)

NET ASSETS, BEGINNING OF YEAR 88,572

NET DEFICIT, END OF YEAR \$ (262,060)

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

pilotED SCHOOLS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 313,394	\$ 502,065	\$ 815,459
Employee benefits	22,973	98,997	121,970
Depreciation	203,905	-	203,905
Interest	165,748	-	165,748
Professional services	64,793	35,519	100,312
Equipment	73,442	7,868	81,310
Food costs	72,658	-	72,658
Classroom and office supplies	65,635	419	66,054
Occupancy	61,703	-	61,703
Staff development and recruitment	50,063	-	50,063
Information technology	48,486	-	48,486
Advertising	-	45,837	45,837
Repairs and maintenance	40,691	-	40,691
Travel and meetings	23,479	-	23,479
Insurance	-	19,938	19,938
Other	30,495	2,592	33,087
	<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.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

OPERATING ACTIVITIES

Change in net assets	\$ (350,632)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	203,905
Changes in certain assets and liabilities:	
Grants receivable	(26,944)
Accounts payable and accrued expenses	(2,310)
Refundable advances	<u>(3,258)</u>
 <i>Net cash used in operating activities</i>	 (179,239)

FINANCING ACTIVITIES

Principal payments on capital lease obligation	<u>(90,383)</u>
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NET CHANGE IN CASH

(269,622)

CASH, BEGINNING OF YEAR

381,397

CASH, END OF YEAR

\$ 111,775

SUPPLEMENTAL INFORMATION

Cash paid for interest	\$ 165,748
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See independent auditors' report and accompanying notes to the financial statements

pilotED SCHOOLS, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 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. 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 85 students in kindergarten through second grade during the 2018-2019 school year.

The School did not meet enrollment expectations for the 2018-2019 school year, resulting in a substantial deficit in revenues over expenses. Enrollment for the 2019-2020 school year increased significantly to 160 students. The School's budget for the 2019-2020 school year, based on 160 students, reflects a surplus of revenues over expenses of approximately \$75,000.

Financial Statement Presentation – The School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets.

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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 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.

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, 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.

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

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 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 – PilotED Schools, Inc. 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, 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. All tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 22, 2019, 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 FINANCIAL ACTIVITY

Prior to the year ended June 30, 2019 (the School's first year of operations), the School received income from grants and other sources to fund necessary startup costs. As of July 1, 2018, the School had cash of \$381,397, grant receivable of \$43,056, capitalized lease asset and associated liability of \$3,058,575, accounts payable of \$10,881, refundable advances of \$325,000, and net assets of \$88,572.

NOTE 3 - REFUNDABLE ADVANCES

The School received grants from the Walton Family Foundation and Opportunity 180 for \$325,000 and \$70,000, respectively. 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. As of June 30, 2019, \$321,742 remained to be expended, \$251,742 and \$70,000 for the Walton Family Foundation and Opportunity 180 grants, respectively.

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

NOTE 4 - 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, 2019, the cost and accumulated depreciation of the building were \$3,058,575 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, 2019:

2020		\$	256,356
2021			263,303
2022			271,202
2023			279,338
2024			287,718
Thereafter			<u>3,012,494</u>
			4,370,411
Less: amount representing interest			<u>(1,402,219)</u>
		\$	<u>2,968,192</u>

NOTE 5 - 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.

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 \$9,824 for the year ended June 30, 2019.

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

NOTE 7 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the financial assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total \$181,775, all of which are available to meet cash needs for general expenditures within a year, including expenditures covered by the Walton Family Foundation and Opportunity 180 grants (See Note 3).

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 8 - 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.

pilotED SCHOOLS, INC.
OTHER REPORT
For the Year Ended June 30, 2019

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*.