

**PARTNERS IN SCHOOL INNOVATION**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JULY 31, 2019 AND 2018**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Partners in School Innovation  
San Francisco, California

We have audited the accompanying financial statements of Partners in School Innovation, which comprises the statements of financial position as of July 31, 2019 and 2018, and the related statements of activities, 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 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 auditor considers 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.

Board of Directors  
Partners in School Innovation

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Partners in School Innovation as of July 31, 2019 and 2018, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Glendora, California  
May 1, 2020

**PARTNERS IN SCHOOL INNOVATION  
STATEMENTS OF FINANCIAL POSITION  
JULY 31, 2019 AND 2018**

<b>ASSETS</b>	<b>2019</b>	<b>2018</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 474,956	\$ 318,144
Accounts Receivable	30,114	-
Pledge Receivable	105,000	3,000
Prepaid Expenses and Other Assets	9,289	-
	<u>619,359</u>	<u>321,144</u>
Total Assets	<u>\$ 619,359</u>	<u>\$ 321,144</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 453,125	\$ 482,482
Deferred Revenue	-	390,000
Short-Term Loan Payable	165,000	188,500
Notes Payable	78,321	326,389
Total Current Liabilities	<u>696,446</u>	<u>1,387,371</u>
<b>LONG- TERM LIABILITIES</b>		
Notes Payable	117,512	-
Total Long-Term Liabilities	<u>117,512</u>	<u>-</u>
<b>NET ASSETS (DEFICIT)</b>		
Without Donor Restriction	(419,599)	(1,130,927)
With Donor Restriction	225,000	64,700
Total Net Assets	<u>(194,599)</u>	<u>(1,066,227)</u>
Total Liabilities and Net Assets	<u>\$ 619,359</u>	<u>\$ 321,144</u>

See accompanying Notes to Financial Statements.

**PARTNERS IN SCHOOL INNOVATION  
STATEMENT OF ACTIVITIES  
YEAR ENDED JULY 31, 2019**

	<b>Without Donor Restriction</b>	<b>With Donor Restriction</b>	<b>2019 Total</b>
<b>REVENUES</b>			
School and District Service Fees	\$ 3,725,183	\$ -	\$ 3,725,183
Contributions and Grants	1,632,241	959,924	2,592,165
Other Revenue	269,568	-	269,568
Net Assets Released from Restrictions	799,624	(799,624)	-
Total Revenues	6,426,616	160,300	6,586,916
<b>EXPENSES</b>			
Program Services	4,159,089	-	4,159,089
Management and General	1,301,080	-	1,301,080
Fundraising	255,119	-	255,119
Total Expenses	5,715,288	-	5,715,288
<b>CHANGE IN NET ASSETS</b>	711,328	160,300	871,628
Net Assets (Deficit) - Beginning of Year	(1,130,927)	64,700	(1,066,227)
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	\$ (419,599)	\$ 225,000	\$ (194,599)

See accompanying Notes to Financial Statements.

**PARTNERS IN SCHOOL INNOVATION  
STATEMENT OF ACTIVITIES  
YEAR ENDED JULY 31, 2018**

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>2018 Total</u>
<b>REVENUES</b>			
School and District Service Fees	\$ 3,883,789	\$ -	\$ 3,883,789
Contributions and Grants	1,247,479	64,700	1,312,179
Other Revenue	6,959	-	6,959
Net Assets Released from Restrictions	396,849	(396,849)	-
Total Revenues	<u>5,535,076</u>	<u>(332,149)</u>	<u>5,202,927</u>
<b>EXPENSES</b>			
Program Services	4,200,973	-	4,200,973
Management and General	1,129,970	-	1,129,970
Fundraising	227,769	-	227,769
Total Expenses	<u>5,558,712</u>	<u>-</u>	<u>5,558,712</u>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	(23,636)	(332,149)	(355,785)
<b>NON-OPERATING REVENUE</b>	<u>(58,185)</u>	<u>-</u>	<u>(58,185)</u>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	34,549	(332,149)	(297,600)
Net Assets (Deficit) - Beginning of Year	<u>(1,165,476)</u>	<u>396,849</u>	<u>(768,627)</u>
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<u>\$ (1,130,927)</u>	<u>\$ 64,700</u>	<u>\$ (1,066,227)</u>

See accompanying Notes to Financial Statements.

**PARTNERS IN SCHOOL INNOVATION  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JULY 31, 2019**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>2019 Expenses</b>
Salaries and Wages	\$ 2,879,642	\$ 539,933	\$ 179,978	\$ 3,599,553
Pension Expenses	141,892	26,605	8,868	177,365
Other Employee Benefits	423,408	79,389	26,463	529,260
Payroll Taxes	257,007	48,189	16,063	321,259
Legal Expenses	51,478	12,697	2,651	66,826
Accounting Expenses	-	426,672	-	426,672
Other Fees for Services	60,350	14,897	3,158	78,405
Advertising and Promotion Expenses	-	7,773	-	7,773
Office Expenses	44,322	10,936	2,302	57,560
Information Technology Expenses	101,711	25,097	5,284	132,092
Occupancy Expenses	38,494	9,499	2,000	49,993
Travel Expenses	81,243	20,047	4,220	105,510
Conference and Meeting Expenses	-	15,176	-	15,176
Interest Expense	-	27,159	-	27,159
Depreciation Expense	-	169	-	169
Insurance Expense	-	17,215	-	17,215
Other Expenses	79,542	19,627	4,132	103,301
<b>Total</b>	<b><u>\$ 4,159,089</u></b>	<b><u>\$ 1,301,080</u></b>	<b><u>\$ 255,119</u></b>	<b><u>\$ 5,715,288</u></b>

See accompanying Notes to Financial Statements.



**PARTNERS IN SCHOOL INNOVATION  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JULY 31, 2018**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>2018 Expenses</b>
Salaries and Wages	\$ 3,025,708	\$ 657,713	\$ 167,091	\$ 3,850,512
Other Employee Benefits	428,028	93,043	23,637	544,708
Payroll Taxes	267,607	58,171	14,778	340,556
Accounting Expenses	-	39,220	-	39,220
Other Fees for Services	44,611	63,289	-	107,900
Advertising and Promotion Expenses	-	2,008	-	2,008
Office Expenses	38,336	44,879	13,097	96,312
Information Technology Expenses	109,883	14,633	-	124,516
Occupancy Expenses	30,077	14,040	-	44,117
Travel Expenses	198,403	69,388	9,166	276,957
Conference and Meeting Expenses	-	7,819	-	7,819
Interest Expense	-	25,130	-	25,130
Depreciation Expense	-	8,525	-	8,525
Insurance Expense	-	32,112	-	32,112
Other Expenses	58,320	-	-	58,320
<b>Total</b>	<b><u>\$ 4,200,973</u></b>	<b><u>\$ 1,129,970</u></b>	<b><u>\$ 227,769</u></b>	<b><u>\$ 5,558,712</u></b>

See accompanying Notes to Financial Statements.

**PARTNERS IN SCHOOL INNOVATION  
STATEMENTS OF CASH FLOWS  
YEAR ENDED JULY 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets (Deficit)	\$ 871,628	\$ (297,600)
Adjustments to Reconcile Change in Net Assets (Deficit) to Net Cash Used by Operating Activities:		
Depreciation	169	8,525
Change in Assets and Liabilities:		
Accounts Receivable	(27,114)	215,000
Pledge Receivable	(105,000)	-
Prepaid Expenses and Other Assets	(9,289)	-
Accounts Payable and Accrued Liabilities	(29,357)	(42,340)
Deferred Revenue	<u>(390,000)</u>	<u>(210,000)</u>
Net Cash Provided by (Used in) Operating Activities	311,037	(326,415)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Furniture and Equipment	<u>(169)</u>	<u>(1,664)</u>
Net Cash Used In Investing Activities	<u>(169)</u>	<u>(1,664)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Notes Payable	(23,500)	188,500
Borrowings on Line of Credit	398,134	-
Repayment of Line of Credit	<u>(646,202)</u>	<u>(143,611)</u>
Net Cash Provided by Financing Activities	<u>(271,568)</u>	<u>44,889</u>
 <b>NET CASH FLOWS</b>	39,300	(283,190)
Cash and Cash Equivalents - Beginning of Year	<u>318,144</u>	<u>601,334</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 357,444</u>	<u>\$ 318,144</u>
 <b>SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid for Interest	<u>\$ 27,159</u>	<u>\$ 25,130</u>

See accompanying Notes to Financial Statements.

**PARTNERS IN SCHOOL INNOVATION  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2019 AND 2018**

**NOTE 1 THE ORGANIZATION AND NATURE OF ACTIVITIES**

**The Organization**

Partners in School Innovation (PSI) was incorporated on February 18, 1994. PSI is a 501(c)(3) nonprofit public benefit corporation whose mission is to transform teaching and learning in the lowest-performing American public schools so that every child, regardless of background, thrives. Our team of extraordinary former teachers and school leaders works shoulder-to-shoulder with educators to help them build their capacity to transform their schools and districts. We provide several types of support, all involving coaching, collaboration, data analysis, and promoting educational equity.

**Programs**

PSI is structured into four teams -- the program team, which implements partnerships with schools, districts, and county offices of education, and three teams that support the program team:

Program - Implements three service models:

- 1) Intensive: Sustained on-site support to transform a school  
A Partners staff member is embedded in a school 3.5 days/week, helping the school define its challenges and execute solutions.
- 2) Transformation Network: School teams learning to transform their schools  
Monthly network meetings plus on-site support create a cadre of change agents in a school district.
- 3) Problem of Practice Network: Learning to solve a shared challenge  
Through monthly network meetings, participants improve in a specific area such as data-driven decision making, early literacy, or middle school math.

Program Development and Support - Develops and continuously refines our program and services.

Administration - Provides operational support in finance, human resources, information technology, and office management.

Advancement - Raises funds to maintain and expand our program implementation and increases the field's awareness of our work in order to generate financial and other support of the organization.

**Basis of Accounting**

The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

**PARTNERS IN SCHOOL INNOVATION  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2019 AND 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board.

**Net Asset Classes**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Revenue Recognition**

PSI relies on fees paid by schools and districts, grants from private foundations and contributions from individuals and corporations. Public contributions are recorded upon receipt. All contributions are considered to be available without donor restriction use unless specifically restricted by the donor. Amounts received that are designated for future periods, restricted by the donor for specific purposes or restricted by the donor in perpetuity are reported with donor restriction.

**Cash and Cash Equivalents**

PSI defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

**Accounts Receivable**

Accounts receivable primarily represent amounts due from schools and districts at July 31, 2019 and 2018. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

**Property and Equipment**

Property and equipment are stated at cost, if purchased or at estimated fair value, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset. Expenses for maintenance and repairs are charged against operations as incurred. PSI capitalizes all expenditures for property equipment in excess of \$3,000. PSI has fully depreciated assets at July 31, 2019 and 2018.

**PARTNERS IN SCHOOL INNOVATION  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2019 AND 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Revenue**

PSI receives fees in advance from schools and districts for future services.

**Functional Allocation of Expenses**

Costs of providing PSI's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The expenses that are allocated include salaries and wages, pension expense, other employee benefits, payroll taxes, legal expenses, other fees for services, office expenses, information technology, travel expenses, occupancy expenses and other expenses, which are allocated on the basis of estimates of time and effort.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

**Income Taxes**

PSI is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. PSI is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. PSI files exempt returns and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

**Change in Accounting Principle**

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenues from Contracts with Customers (Topic 606). The update establishes the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. There was no material impact on PSI's financial position and results of operations upon adoption of the new standard.

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. PSI has implemented ASU 2016-14 and have adjusted the presentation in the financial statements accordingly.

**PARTNERS IN SCHOOL INNOVATION  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2019 AND 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Evaluation of Subsequent Events**

The School has evaluated subsequent events through May 1, 2020, the date these financial statements were available to be issued.

**NOTE 2 LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure are those without donor or other restrictions limiting their use within one year of the statement of financial position date, comprise of the following:

Cash and Cash Equivalents	\$	474,956
Accounts Receivable		30,114
Pledge Receivable		105,000
Less: Net Assets with Donor Restriction		<u>(225,000)</u>
Total	\$	<u><u>385,070</u></u>

As part of its liquidity management plan, the Organization monitors liquidity required and cash flows to meet operating needs on a monthly basis. The Organization structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

**NOTE 3 CONCENTRATION OF CREDIT RISK**

PSI maintains its cash in bank deposit accounts at various institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, cash in these accounts exceeds the insured amounts. PSI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

**NOTE 4 SHORT-TERM LOAN PAYABLE AND RELATED PARTY TRANSACTION**

On June 21, 2018, PSI entered into an interest bearing note of \$165,000 with a board member. Any borrowing under the note bears interest at approximately 3.38%. At July 31, 2019, the outstanding amount was \$165,000, the note was subsequently paid in full on September 4, 2019.

**PARTNERS IN SCHOOL INNOVATION  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2019 AND 2018**

**NOTE 5 DEBT**

PSI has an unsecured term loan with a financial intuition, under which it may borrow up to \$500,000. The loan bears interest at approximately 5.50%. At July 31, 2019, the outstanding amount of this loan was \$195,833. This loan matures in February 2022.

Future payments for this term loan:

<u>Year Ended July 31,</u>	
2020	\$ 78,321
2021	78,321
2022	<u>39,191</u>
Total	<u>\$ 195,833</u>

**NOTE 6 NET ASSETS WITH DONOR RESTRICTION**

At July 31, net assets with donor restrictions are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
San Francisco Schools Program	\$ -	\$ 15,385
Online Leadership Program	-	49,315
YAO Program	120,000	-
Subject to Passage of Time:		
Promises to Give	<u>105,000</u>	<u>-</u>
Total	<u>\$ 225,000</u>	<u>\$ 64,700</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose specified by the donors as follows for the years ended July 31:

	<u>2019</u>	<u>2018</u>
Satisfaction of Purpose Restrictions:		
Operation of the Training Center	\$ (15,385)	-
Educational Programs	(49,315)	-
Academic Achievement Programs	<u>(734,924)</u>	<u>(396,849)</u>
Total	<u>\$ (799,624)</u>	<u>\$ (396,849)</u>

**PARTNERS IN SCHOOL INNOVATION  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2019 AND 2018**

**NOTE 7 RETIREMENT PLAN**

PSI provides a 403(b) plan for all eligible full-time and part-time employees. PSI contributes 4% of each employee's salary, and if the employee contributes at least 1% of his or her salary towards the plan, PSI contributes an additional 1%. Accordingly, PSI has recorded retirement expense in the amounts of \$177,365 and \$137,959 for the years ended July 31, 2019 and 2018.

As part of the plan, when an employee terminates employment prior to fully vesting in PSI's contribution, the unvested portion is returned to the organization. These funds are to be used for current employees' benefits. There was no forfeiture receivable at July 31, 2019 and 2018.

**NOTE 8 MISAPPROPRIATION LOSS AND INDEMNIFICATION**

During the year ended July 31, 2018, PSI experienced loss due to misappropriation of assets and indemnification conducted by a former employee. PSI consulted with legal counsel and pursued repayment from the former employee for the misappropriate fund amount. For the year ended July 31, 2018, the misappropriation loss was \$67,026, of which total misappropriation loss since 2012 totaled \$274,636. The former employee repaid \$125,211 during the year ended July 31, 2018. The indemnification loss, net of repayments for the year ended July 31, 2018 was \$58,185, was shown as non-operating revenue. There were no repayments made during the year ended July 31, 2019. During the year ended July 31, 2019, PSI implemented procedures recommended by finance and accounting consultants to strengthen their internal controls to prevent an occurrence of such malfeasance again.

**NOTE 9 COMMITMENTS**

PSI has various leases for its use of facilities in California and Nevada. The Nevada lease requires monthly payments through August 2019. PSI has chosen not renew the Nevada location's lease. The main office lease is on a month-to-month agreement. Rent expense associated with these leases for the year ended July 31, 2019 was \$49,993. Future minimum lease payments for the year ended July 31, 2020 is \$2,155.



**PARTNERS IN SCHOOL INNOVATION  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2019 AND 2018**

**NOTE 10 SUBSEQUENT EVENTS**

**Deferred Compensation Plan**

On December 31, 2019, PSI terminated its 403(b) retirement plan. As of January 1, 2020, PSI contracted with a professional employer organization that provides PSI staff employee benefits including a multi-employer 401(k) plan.

**Bill & Melinda Gates Foundation Grant**

In December 2019, the Bill & Melinda Gates Foundation announced that PSI had secured a validation grant under the Foundation's Networks for School Improvement (NSI) initiative. PSI was granted \$13,660,851 over 63 months to expand its existing network for school improvement in Philadelphia for three years, create two additional networks for school improvement focused on middle grades math beginning in 2020-21, and create yet another NSI beginning in 2021-22. The plan for each network for school improvement is to transition from a focus on math to a focus on whole-school improvement after two years.

**COVID-19 Impact**

The COVID-19 pandemic has impacted PSI as all schools that PSI serve have been closed for the remainder of the 2019-2020 school year. PSI continues to provide services digitally. The start of the 2020-2021 school year will likely be delayed which may impact of future revenues.

