



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

B51742

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](http://www.in.gov/sboa)

January 9, 2019

Charter School Board  
Neighborhood Charter Network, Inc.  
3725 Kiel Ave.  
Indianapolis, IN 46224


We have reviewed the report prepared by Neighborhood Charter Network, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Neighborhood Charter Network, Inc. as of June 30, 2018 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 2.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

  
Paul D. Joyce, CPA  
State Examiner

**NEIGHBORHOOD CHARTER NETWORK, INC.**

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



## TABLE OF CONTENTS

	<b>Page</b>	
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1 - 2	
<b>FINANCIAL STATEMENTS</b>		
Statements of Financial Position .....	3	
Statements of Activities and Change in Net Assets .....	4	
Statements of Functional Expenses .....	5	
Statements of Cash Flows .....	6	
Notes to the Financial Statements .....	7 - 11	
<b>SUPPLEMENTARY INFORMATION</b>		
Schedule of Expenditures of Federal Awards .....	12	
Notes to the Schedule of Expenditures of Federal Awards .....	13	
Schedules of Financial Position by School .....	14 - 15	
Schedules of Activities and Change in Net Assets by School.....	16 - 17	
<b>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</b> .....		18 - 19
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE</b> .....		20 - 21
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b> .....	22	
<b>OTHER REPORT</b> .....	23	



# Donovan CPAs

## *Independent Auditors' Report*

The Board of Directors  
Neighborhood Charter Network, Inc.

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

We have audited the accompanying financial statements of Neighborhood Charter Network, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

---

**[www.cpadonovan.com](http://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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Charter Network, Inc. as of June 30, 2018 and 2017, 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.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, Neighborhood Charter Network, Inc. recorded in-kind contributions and offsetting expenses from Indianapolis Public Schools, a related party, totaling \$2,045,900 during the year ended June 30, 2018. These in-kind transactions represent approximately 21% of total revenue and support and 22% of total expenses included in the statement of activities and change in net assets for the year ended June 30, 2018. These amounts are calculated by Indianapolis Public Schools using significant estimates and judgments and are recorded by management of Neighborhood Charter Network, Inc. as presented. Our opinion is not modified with respect to this matter.

## **Other Matters**

Our audit was 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. Likewise, the Schedules of Financial Position by School on pages 14 and 15 and the Schedules of Activities and Change in Net Assets by School on pages 16 and 17 are presented for purposes of additional analysis and are 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 applied in the audit of the financial statements and certain additional 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 December 18, 2018 on our consideration of Neighborhood Charter Network, 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 Neighborhood Charter Network, Inc.'s internal control over financial reporting and compliance.

DONOVAN



Indianapolis, Indiana  
December 18, 2018

**NEIGHBORHOOD CHARTER NETWORK, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 2,916,783	\$ 2,470,239
Grants receivable	226,935	157,089
Prepaid expenses	<u>10,000</u>	<u>10,000</u>
<i>Total current assets</i>	<u>3,153,718</u>	<u>2,637,328</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	68,203	68,203
Less: accumulated depreciation	<u>(50,469)</u>	<u>(36,828)</u>
<i>Property and equipment, net</i>	<u>17,734</u>	<u>31,375</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,171,452</u></u>	<u><u>\$ 2,668,703</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 125,071	\$ 105,000
Current portion of capital lease obligation	-	6,184
Accounts payable and accrued expenses	226,612	173,840
Refundable advances	<u>43,600</u>	<u>19,730</u>
<i>Total current liabilities</i>	<u>395,283</u>	<u>304,754</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	800,000	927,571
Capital lease obligation, net of current portion	<u>-</u>	<u>496</u>
<i>Total long-term liabilities</i>	<u>800,000</u>	<u>928,067</u>
<i>Total liabilities</i>	<u>1,195,283</u>	<u>1,232,821</u>
<b>NET ASSETS</b>		
Unrestricted	1,976,169	1,321,247
Temporarily restricted	<u>-</u>	<u>114,635</u>
<i>Total net assets</i>	<u>1,976,169</u>	<u>1,435,882</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 3,171,452</u></u>	<u><u>\$ 2,668,703</u></u>

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

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**For the Years Ended June 30, 2018 and, 2017**

	<u>2018</u>			<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>						
State education support	\$ 5,891,987	\$ -	\$ 5,891,987	\$ 5,318,698	\$ -	\$ 5,318,698
In-kind contribution from IPS	2,045,900	-	2,045,900	-	-	-
Grant revenue	1,728,799	-	1,728,799	1,226,177	325,000	1,551,177
Student fees	4,454	-	4,454	3,534	-	3,534
Contributions	81,710	-	81,710	12,503	-	12,503
Interest income	75	-	75	75	-	75
Other income	14,513	-	14,513	4,778	-	4,778
Net assets released from restrictions	114,635	(114,635)	-	210,365	(210,365)	-
<i>Total revenue and support</i>	<u>9,882,073</u>	<u>(114,635)</u>	<u>9,767,438</u>	<u>6,776,130</u>	<u>114,635</u>	<u>6,890,765</u>
<b>EXPENSES</b>						
Program services	7,332,481	-	7,332,481	4,455,612	-	4,455,612
Management and general	1,894,670	-	1,894,670	1,541,425	-	1,541,425
<i>Total expenses</i>	<u>9,227,151</u>	<u>-</u>	<u>9,227,151</u>	<u>5,997,037</u>	<u>-</u>	<u>5,997,037</u>
<b>CHANGE IN NET ASSETS</b>	654,922	(114,635)	540,287	779,093	114,635	893,728
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,321,247</u>	<u>114,635</u>	<u>1,435,882</u>	<u>542,154</u>	<u>-</u>	<u>542,154</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,976,169</u>	<u>\$ -</u>	<u>\$ 1,976,169</u>	<u>\$ 1,321,247</u>	<u>\$ 114,635</u>	<u>\$ 1,435,882</u>

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

**NEIGHBORHOOD CHARTER NETWORK, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Years Ended June 30, 2018 and, 2017**

	2018			2017		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
<b>FUNCTIONAL EXPENSES</b>						
In-kind expenses:						
Occupancy	\$ 1,449,477	\$ -	\$ 1,449,477	\$ -	\$ -	\$ -
Special education personnel	138,000	-	138,000	-	-	-
Security services	-	70,400	70,400	-	-	-
Transportation	341,300	-	341,300	-	-	-
Food service	140,100	-	140,100	-	-	-
<i>Total in-kind expenses</i>	<u>2,068,877</u>	<u>70,400</u>	<u>2,139,277</u>	<u>-</u>	<u>-</u>	<u>-</u>
Direct expenses:						
Salaries and wages	3,190,450	1,056,167	4,246,617	2,605,944	843,359	3,449,303
Employee benefits	579,510	265,503	845,013	482,664	215,094	697,758
Professional services	295,136	166,644	461,780	134,021	179,284	313,305
Books and materials	282,565	65,189	347,754	460,220	47,773	507,993
Food service expense	458,901	-	458,901	382,430	-	382,430
Student transportation	328,663	-	328,663	224,938	-	224,938
Fee to Indianapolis Public Schools	-	110,000	110,000	-	120,000	120,000
Equipment and supplies	65,164	41,332	106,496	116,744	35,878	152,622
Insurance	24,114	8,437	32,551	15,155	8,020	23,175
Advertising	-	2,125	2,125	-	720	720
Interest	-	7,584	7,584	-	6,909	6,909
Depreciation	13,641	-	13,641	13,641	-	13,641
Other	25,460	101,289	126,749	19,855	84,388	104,243
<i>Total direct expenses</i>	<u>5,263,604</u>	<u>1,824,270</u>	<u>7,087,874</u>	<u>4,455,612</u>	<u>1,541,425</u>	<u>5,997,037</u>
<i>Total functional expenses</i>	<u>\$ 7,332,481</u>	<u>\$ 1,894,670</u>	<u>\$ 9,227,151</u>	<u>\$ 4,455,612</u>	<u>\$ 1,541,425</u>	<u>\$ 5,997,037</u>

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

**NEIGHBORHOOD CHARTER NETWORK, INC.**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2018 and, 2017**

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 540,287	\$ 893,728
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,641	13,641
Change in certain assets and liabilities:		
Grants receivable	(69,846)	(105,965)
Accounts payable and accrued expenses	52,772	110,621
Refundable advances	23,870	19,730
	<u>560,724</u>	<u>931,755</u>
<i>Net cash provided by operating activities</i>	<u>560,724</u>	<u>931,755</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from note payable	-	500,000
Principal payments on notes payable	(107,500)	(55,000)
Principal payments on capital lease obligation	(6,680)	(4,879)
	<u>(114,180)</u>	<u>440,121</u>
<i>Net cash provided by (used in) financing activities</i>	<u>(114,180)</u>	<u>440,121</u>
<b>NET CHANGE IN CASH</b>	446,544	1,371,876
<b>CASH, BEGINNING OF YEAR</b>	<u>2,470,239</u>	<u>1,098,363</u>
<b>CASH, END OF YEAR</b>	<u>\$ 2,916,783</u>	<u>\$ 2,470,239</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 11,223	\$ 3,270

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

# NEIGHBORHOOD CHARTER NETWORK, INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Neighborhood Charter Network, Inc. ("NCN") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana, and is the governing body of two charter schools located in Indianapolis, Indiana:

- *Enlace Academy* ("Enlace") commenced operations as a public charter school on July 1, 2013. Enlace is located on the west side of Indianapolis and served approximately 425 students in grades kindergarten through seven in fiscal year 2018.
- *Kindezi Academy* ("Kindezi") commenced operations as a public charter school on July 1, 2016. Kindezi is located in the Martindale-Brightwood Neighborhood on the east side of Indianapolis and served approximately 380 students in grades kindergarten through six in fiscal year 2018.

Both Enlace and Kindezi (together referred to as "the Schools") operate under Indiana Code 20-24 and are sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis ("Mayor's Office").

On July 1, 2015, Enlace entered into an Innovation Network Charter School Agreement with Indianapolis Public Schools ("IPS"). The agreement, under Indiana Code 20-25.5-1, allows IPS to enter into an agreement with Enlace to operate a charter school within an IPS building. The agreement is for a term of five years, with the option to renew the agreement for additional five-year terms. Under the agreement, IPS will pay to Enlace the amount Enlace 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. For consideration of this agreement, Enlace pays IPS a monthly fee of \$10,000. The agreement can be terminated annually by either party, by providing written notice at least 60 days prior to the end of the school year.

On March 17, 2016, Enlace entered into an Innovation Network Charter School Agreement with IPS to operate two schools in a single IPS owned building. During the 2017-2018 school year, kindergarten through third grade operated as Kindezi Academy and grades four through six operated as Joyce Kilmer Academy 69. For each subsequent year, Kindezi Academy will take over one additional grade from Joyce Kilmer Academy 69 until the entire building is operating as Kindezi Academy. The agreement is for a term of five years, with the option to renew the agreement for additional five-year terms. Under the agreement, IPS will pay to Kindezi the amount Kindezi would receive from the State of Indiana for state basic tuition support and complexity grant funding as if both schools 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.

Both Enlace and Kindezi received valuable in-kind services from IPS for rent and other shared services during the years ended June 30, 2018 and 2017. For 2017, the value of these services was unable to be estimated. The value of these services was estimated for 2018 and have been reflected as in-kind contributions and expenses.

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.

# NEIGHBORHOOD CHARTER NETWORK, INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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

Financial Statement Presentation – The Schools report their financial position and activities according to two classes of assets as follows:

- *Unrestricted net assets* represents net assets that the Board of Directors has discretionary control to use in carrying on the activities of the Schools in accordance with its articles of incorporation and by-laws.
- *Temporarily restricted net assets* represents net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time. At June 30, 2017, Kindezi's temporarily restricted net assets consisted of \$114,635 of unspent funds from the \$325,000 Walton Family Foundation grant. The remainder of these funds were spent during the year ended June 30, 2018.

Contributions – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Schools report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

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 Schools receive an amount per student in equal portion as if the Schools acted as traditional charter schools. Funding from IPS is received monthly. Revenue is recognized in the year in which educational services are rendered.

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

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

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

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful life of such assets has been determined to be five years.

# NEIGHBORHOOD CHARTER NETWORK, INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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

Taxes on Income – Neighborhood Charter Network, 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, NCN would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2018 and 2017, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require NCN 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. NCN has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ended after 2014 are open to audit for both federal and state purposes.

Subsequent Events – NCN evaluated subsequent events through December 18, 2018, 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 - VALUATION OF IN-KIND SERVICES

NCN has recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$2,045,900 during the year ended June 30, 2018. These in-kind transactions represent approximately 21% of total revenue and support and 22% of total expenses for the year ended June 30, 2018. 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. Management has not performed an analysis of the reasonability of the valuations. NCN received similar in-kind services during the year ended June 30, 2017, however neither NCN nor IPS has calculated an estimated value for these services. Accordingly, no in-kind amounts have been recorded for the year ended June 30, 2017.

### NOTE 3 - REFUNDABLE ADVANCES

NCN has been awarded grants to provide educational instruction that are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2018 and 2017, NCN had refundable grant advances in excess of expenditures of \$43,600 and \$19,730, respectively.

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

**NOTE 4 - NOTES PAYABLE**

Notes payable consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Enlace - note payable to State Board of Education, payable \$25,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum.	\$ 425,000	\$ 475,000
Kindezi - Note payable to State Board of Education, payable \$25,000 semi-annually (January 1 and July 1) plus interest at 1.00% per annum.	475,000	500,000
Enlace - Note payable to CSDC Property Corporation, monthly payments of \$2,500, non-interest bearing.	25,071	57,571
	925,071	1,032,571
Less: current portion	(125,071)	(105,000)
Long-term portion	\$ 800,000	\$ 927,571

The notes payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. These notes are secured by the respective school's future tuition support payments on the school's basic grant.

In March 2013, Enlace signed an agreement with CSDC Property Corporation, contracting CSDC to begin work on locating and developing a location for a new school facility. Enlace later abandoned this effort after reaching agreement with IPS. In November 2014, Enlace negotiated settlement of amounts owed to CSDC for services performed under this contract in the amount of \$137,570.

Principal maturities of the notes payable are as follows for the years ending June 30:

2019	\$ 125,071
2020	100,000
2021	100,000
2022	100,000
2023	100,000
Thereafter	400,000
	\$ 925,071

**NEIGHBORHOOD CHARTER NETWORK, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2018 and 2017**

**NOTE 5 - CAPITAL LEASE OBLIGATION**

Enlace has entered into a capital lease obligation for a copier. At June 30, 2018, the cost and accumulated depreciation of the copier was \$16,133 and \$9,680, respectively. As of June 30, 2018, the capital lease had been fully paid.

**NOTE 6 - RETIREMENT PLAN**

NCN maintains a defined contribution Section 403(b) retirement plan covering substantially all employees. The plan allows employees to make salary deferral contributions and provides that NCN will make contributions at its discretion. For the years ended June 30, 2018 and 2017, NCN contributed 4% of defined compensation for all employees and matched 100% of employee deferral contributions, not to exceed 3% of compensation. Retirement plan expense was \$265,080 and \$147,603 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 7 - RISKS AND UNCERTAINTIES**

NCN provides education 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 NCN. Additionally, NCN is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on NCN.

Financial instruments that potentially subject NCN to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2018, substantially all of the grants receivable balance was due from the State of Indiana. In addition, deposits are maintained at Key Bank and are insured up to the FDIC insurance limit. At June 30, 2018, funds held at Key Bank exceeded the FDIC insurance limit.

**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. Accordingly, certain expenses have been allocated between program services and management and general expenses.

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 139,827
National School Lunch Program	10.555		<u>287,806</u>
Total for cluster			<u>427,633</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	18-9365	199,873
	84.010	18-9115	113,354
Pass-through Indiana Department of Education			
Pass-through Indianapolis Public Schools			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	Unknown	416,527
Pass-through Indiana Department of Education			
Special Education Cluster			
Special Education - Grants to States	84.027	14217-575-PN01	55,872
English Language Acquisition State Grants	84.365	01118-095-PN01	<u>86,719</u>
Total for grantor agency			<u>872,345</u>
Total federal awards expended			<u>\$ 1,299,978</u>

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Neighborhood Charter Network, Inc. ("NCN") under programs of the federal government for the year ended June 30, 2018. 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, changes in net assets, or cash flows of NCN.

**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.

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**SCHEDULE OF FINANCIAL POSITION BY SCHOOL**  
**June 30, 2018**

	<u>Enlace</u>	<u>Kindezi</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 1,821,879	\$ 1,094,904	\$ -	\$ 2,916,783
Grants receivable	26,937	224,998	(25,000)	226,935
Prepaid expenses	10,000	-	-	10,000
<i>Total current assets</i>	<u>1,858,816</u>	<u>1,319,902</u>	<u>(25,000)</u>	<u>3,153,718</u>
<b>PROPERTY AND EQUIPMENT</b>				
Furniture and equipment	68,203	-	-	68,203
Less: accumulated depreciation	<u>(50,469)</u>	<u>-</u>	<u>-</u>	<u>(50,469)</u>
<i>Property and equipment, net</i>	<u>17,734</u>	<u>-</u>	<u>-</u>	<u>17,734</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,876,550</u></u>	<u><u>\$ 1,319,902</u></u>	<u><u>\$ (25,000)</u></u>	<u><u>\$ 3,171,452</u></u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of notes payable	\$ 75,071	\$ 50,000	\$ -	\$ 125,071
Accounts payable and accrued expenses	177,414	74,198	(25,000)	226,612
Refundable advances	21,134	22,466	-	43,600
<i>Total current liabilities</i>	273,619	146,664	(25,000)	395,283
<b>LONG-TERM LIABILITIES</b>				
Notes payable, net of current portion	<u>375,000</u>	<u>425,000</u>	<u>-</u>	<u>800,000</u>
<i>Total liabilities</i>	648,619	571,664	(25,000)	1,195,283
<b>NET ASSETS, UNRESTRICTED</b>	<u>1,227,931</u>	<u>748,238</u>	<u>-</u>	<u>1,976,169</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,876,550</u></u>	<u><u>\$ 1,319,902</u></u>	<u><u>\$ (25,000)</u></u>	<u><u>\$ 3,171,452</u></u>

See independent auditors' report

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**SCHEDULE OF FINANCIAL POSITION BY SCHOOL**  
**June 30, 2017**

	<u>Enlace</u>	<u>Kindezi</u>	<u>Total</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$ 1,465,447	\$ 1,004,792	\$ 2,470,239
Grants receivable	129,261	27,828	157,089
Prepaid expenses	10,000	-	10,000
<i>Total current assets</i>	<u>1,604,708</u>	<u>1,032,620</u>	<u>2,637,328</u>
<b>PROPERTY AND EQUIPMENT</b>			
Furniture and equipment	68,203	-	68,203
Less: accumulated depreciation	<u>(36,828)</u>	<u>-</u>	<u>(36,828)</u>
<i>Property and equipment, net</i>	<u>31,375</u>	<u>-</u>	<u>31,375</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,636,083</u></u>	<u><u>\$ 1,032,620</u></u>	<u><u>\$ 2,668,703</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of notes payable	\$ 80,000	\$ 25,000	\$ 105,000
Current portion of capital lease obligation	6,184	-	6,184
Accounts payable and accrued expenses	80,976	92,864	173,840
Refundable advances	19,730	-	19,730
<i>Total current liabilities</i>	<u>186,890</u>	<u>117,864</u>	<u>304,754</u>
<b>LONG-TERM LIABILITIES</b>			
Notes payable, net of current portion	452,571	475,000	927,571
Capital lease obligation, net of current portion	<u>496</u>	<u>-</u>	<u>496</u>
<i>Total long-term liabilities</i>	<u>453,067</u>	<u>475,000</u>	<u>928,067</u>
<i>Total liabilities</i>	<u>639,957</u>	<u>592,864</u>	<u>1,232,821</u>
<b>NET ASSETS</b>			
Unrestricted	996,126	325,121	1,321,247
Temporarily restricted	<u>-</u>	<u>114,635</u>	<u>114,635</u>
<i>Total net assets</i>	<u>996,126</u>	<u>439,756</u>	<u>1,435,882</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,636,083</u></u>	<u><u>\$ 1,032,620</u></u>	<u><u>\$ 2,668,703</u></u>

See independent auditors' report

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL**  
**For the Year Ended June 30, 2018**

	<u>Enlace</u>		<u>Kindezi</u>		<u>Total NCN</u>		
	<u>Unrestricted</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>							
State education support	\$ 3,118,862	\$ 2,773,125	\$ -	\$ 2,773,125	\$ 5,891,987	\$ -	\$ 5,891,987
In-kind contribution from IPS	910,900	1,135,000	-	1,135,000	2,045,900	-	2,045,900
Grant revenue	922,455	806,344	-	806,344	1,728,799	-	1,728,799
Student fees	4,454	-	-	-	4,454	-	4,454
Contributions	21,251	60,459	-	60,459	81,710	-	81,710
Interest income	75	-	-	-	75	-	75
Other income	9,519	4,994	-	4,994	14,513	-	14,513
Net assets released from restrictions	-	114,635	(114,635)	-	114,635	(114,635)	-
<i>Total revenue and support</i>	<u>4,987,516</u>	<u>4,894,557</u>	<u>(114,635)</u>	<u>4,779,922</u>	<u>9,882,073</u>	<u>(114,635)</u>	<u>9,767,438</u>
<b>EXPENSES</b>							
Program services	3,736,824	3,595,657	-	3,595,657	7,332,481	-	7,332,481
Management and general	1,018,887	875,783	-	875,783	1,894,670	-	1,894,670
<i>Total expenses</i>	<u>4,755,711</u>	<u>4,471,440</u>	<u>-</u>	<u>4,471,440</u>	<u>9,227,151</u>	<u>-</u>	<u>9,227,151</u>
<b>CHANGE IN NET ASSETS</b>	231,805	423,117	(114,635)	308,482	654,922	(114,635)	540,287
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>996,126</u>	<u>325,121</u>	<u>114,635</u>	<u>439,756</u>	<u>1,321,247</u>	<u>114,635</u>	<u>1,435,882</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,227,931</u>	<u>\$ 748,238</u>	<u>\$ -</u>	<u>\$ 748,238</u>	<u>\$ 1,976,169</u>	<u>\$ -</u>	<u>\$ 1,976,169</u>

See independent auditors' report

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL**  
**For the Year Ended June 30, 2017**

	Enlace		Kindezi		Total NCN		
	Unrestricted	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>							
State education support	\$ 2,739,190	\$ 2,579,508	\$ -	\$ 2,579,508	\$ 5,318,698	\$ -	\$ 5,318,698
Grant revenue	799,147	427,030	325,000	752,030	1,226,177	325,000	1,551,177
Student fees	3,534	-	-	-	3,534	-	3,534
Contributions	6,366	6,137	-	6,137	12,503	-	12,503
Interest income	75	-	-	-	75	-	75
Other income	4,248	530	-	530	4,778	-	4,778
Net assets released from restrictions	-	210,365	(210,365)	-	210,365	(210,365)	-
<i>Total revenue and support</i>	3,552,560	3,223,570	114,635	3,338,205	6,776,130	114,635	6,890,765
<b>EXPENSES</b>							
Program services	2,249,441	2,206,171	-	2,206,171	4,455,612	-	4,455,612
Management and general	849,147	692,278	-	692,278	1,541,425	-	1,541,425
<i>Total expenses</i>	3,098,588	2,898,449	-	2,898,449	5,997,037	-	5,997,037
<b>CHANGE IN NET ASSETS</b>	453,972	325,121	114,635	439,756	779,093	114,635	893,728
<b>NET ASSETS, BEGINNING OF YEAR</b>	542,154	-	-	-	542,154	-	542,154
<b>NET ASSETS, END OF YEAR</b>	\$ 996,126	\$ 325,121	\$ 114,635	\$ 439,756	\$ 1,321,247	\$ 114,635	\$ 1,435,882

See independent auditors' report



# 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  
Neighborhood Charter Network, 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 Neighborhood Charter Network, Inc. ("NCN"), which comprise the statement of financial position as of June 30, 2018 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 December 18, 2018.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered NCN'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 NCN's internal control. Accordingly, we do not express an opinion on the effectiveness of NCN'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

---

[www.cpadonovan.com](http://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 NCN'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*.

## **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 NCN'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

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

Indianapolis, Indiana  
December 18, 2018



# 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  
Neighborhood Charter Network, Inc.

### **Report on Compliance for Each Major Federal Program**

We have audited Neighborhood Charter Network, Inc.'s ("NCN") 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 each of NCN's major federal programs for the year ended June 30, 2018. NCN's major federal programs are 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 each of NCN's major federal programs 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 the 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 NCN'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 each major federal program. However, our audit does not provide a legal determination of NCN's compliance.

---

[www.cpadonovan.com](http://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

## Opinion on Each Major Federal Program

In our opinion, Neighborhood Charter Network, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## Report on Internal Control over Compliance

Management of Neighborhood Charter Network, Inc. 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 NCN's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 each 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 NCN'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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Indianapolis, Indiana  
December 18, 2018

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2018**

**I. Summary of Auditors' Results**

***Financial Statements***

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

***Federal Awards***

Internal control over major federal programs:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
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)?	No
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster 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

**II. Financial Statement Findings**

No matters were reportable.

**III. Federal Award Findings and Questioned Costs**

No matters were reportable.

**NEIGHBORHOOD CHARTER NETWORK, INC.**  
**OTHER REPORT**  
**For the Year Ended June 30, 2018**

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

Supplemental Audit Report of Neighborhood Charter Network, 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*.