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

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

March 11, 2020

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

We have reviewed the audit report of Neighborhood Charter Network, 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 Neighborhood Charter Network, 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.


We call your attention to the finding in the report on pages 22 through 23. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding.

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

In our opinion, Donovan CPAs prepared the audit report in accordance with the 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, 2019 and 2018



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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, 2019 and 2018, the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Charter Network, Inc. as of June 30, 2019 and 2018, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

www.cpadonovan.com

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

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

Emphasis of Matters

As discussed in Note 2 to the financial statements, net assets as of June 30, 2018 have been adjusted to correct an error pertaining to grant revenues that should have been recognized during the year ended June 30, 2018 in the amount of \$265,651. This correction is reflected in the accompanying financial statements as an increase in grants revenue during the year ended June 30, 2018, a corresponding increase in grants receivable as of June 30, 2018, and an increase in net assets as of June 30, 2018. Our opinion is not modified with respect to this matter.

As discussed in Note 3 to the financial statements, Neighborhood Charter Network, Inc. recorded in-kind contributions and offsetting expenses from Indianapolis Public Schools, a related party, totaling \$2,772,320 and \$2,139,277 during the years ended June 30, 2019 and 2018, respectively. These in-kind transactions represent approximately 24% of total revenue and support and 24% of total expenses for the year ended June 30, 2019 (20% and 23%, respectively, for 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 January 31, 2020 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
January 31, 2020

NEIGHBORHOOD CHARTER NETWORK, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,890,927	\$ 2,916,783
Grants receivable	545,889	492,586
Prepaid expenses	<u>10,000</u>	<u>10,000</u>
<i>Total current assets</i>	<u>3,446,816</u>	<u>3,419,369</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	93,700	68,203
Less: accumulated depreciation	<u>(67,933)</u>	<u>(50,469)</u>
<i>Property and equipment, net</i>	<u>25,767</u>	<u>17,734</u>
TOTAL ASSETS	<u><u>\$ 3,472,583</u></u>	<u><u>\$ 3,437,103</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 100,000	\$ 125,071
Accounts payable and accrued expenses	258,017	226,612
Refundable advances	<u>-</u>	<u>43,600</u>
<i>Total current liabilities</i>	358,017	395,283
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>700,000</u>	<u>800,000</u>
<i>Total liabilities</i>	1,058,017	1,195,283
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>2,414,566</u>	<u>2,241,820</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,472,583</u></u>	<u><u>\$ 3,437,103</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, 2019 and, 2018

	<u>2019</u>	<u>2018</u>		<u>Total</u>
	<u>Without Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	
REVENUE AND SUPPORT				
State education support	\$ 6,571,005	\$ 5,891,987	\$ -	\$ 5,891,987
In-kind contribution from IPS	2,772,320	2,045,900	-	2,045,900
Grant revenue	2,288,800	1,994,450	-	1,994,450
Student fees	1,516	4,454	-	4,454
Contributions	50,508	81,710	-	81,710
Interest income	75	75	-	75
Other income	56,581	14,513	-	14,513
Net assets released from restrictions	-	114,635	(114,635)	-
<i>Total revenue and support</i>	<u>11,740,805</u>	<u>10,147,724</u>	<u>(114,635)</u>	<u>10,033,089</u>
EXPENSES				
Program services	9,180,016	7,332,481	-	7,332,481
Management and general	2,388,043	1,894,670	-	1,894,670
<i>Total expenses</i>	<u>11,568,059</u>	<u>9,227,151</u>	<u>-</u>	<u>9,227,151</u>
CHANGE IN NET ASSETS	172,746	920,573	(114,635)	805,938
NET ASSETS, BEGINNING OF YEAR	<u>2,241,820</u>	<u>1,321,247</u>	<u>114,635</u>	<u>1,435,882</u>
NET ASSETS, END OF YEAR	<u>\$ 2,414,566</u>	<u>\$ 2,241,820</u>	<u>\$ -</u>	<u>\$ 2,241,820</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, 2019 and, 2018

	2019			2018		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
In-kind expenses:						
Occupancy	\$ 2,053,534	\$ -	\$ 2,053,534	\$ 1,449,477	\$ -	\$ 1,449,477
Special education personnel	207,794	-	207,794	138,000	-	138,000
Security services	-	102,041	102,041	-	70,400	70,400
Transportation	300,859	-	300,859	341,300	-	341,300
Food service	108,092	-	108,092	140,100	-	140,100
<i>Total in-kind expenses</i>	<u>2,670,279</u>	<u>102,041</u>	<u>2,772,320</u>	<u>2,068,877</u>	<u>70,400</u>	<u>2,139,277</u>
Direct expenses:						
Salaries and wages	3,941,184	1,169,647	5,110,831	3,190,450	1,056,167	4,246,617
Employee benefits	744,868	374,947	1,119,815	579,510	265,503	845,013
Professional services	410,041	351,963	762,004	295,136	166,644	461,780
Books and materials	363,551	89,574	453,125	282,565	65,189	347,754
Food service expense	490,264	-	490,264	458,901	-	458,901
Student transportation	385,910	-	385,910	328,663	-	328,663
Fee to Indianapolis Public Schools	-	120,000	120,000	-	110,000	110,000
Equipment and supplies	108,935	30,923	139,858	65,164	41,332	106,496
Insurance	21,687	22,097	43,784	24,114	8,437	32,551
Advertising	-	850	850	-	2,125	2,125
Interest	-	8,751	8,751	-	7,584	7,584
Depreciation	17,464	-	17,464	13,641	-	13,641
Other	25,833	117,250	143,083	25,460	101,289	126,749
<i>Total direct expenses</i>	<u>6,509,737</u>	<u>2,286,002</u>	<u>8,795,739</u>	<u>5,263,604</u>	<u>1,824,270</u>	<u>7,087,874</u>
<i>Total functional expenses</i>	<u>\$ 9,180,016</u>	<u>\$ 2,388,043</u>	<u>\$ 11,568,059</u>	<u>\$ 7,332,481</u>	<u>\$ 1,894,670</u>	<u>\$ 9,227,151</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, 2019 and, 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 172,746	\$ 805,938
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,464	13,641
Change in certain assets and liabilities:		
Grants receivable	(53,303)	(335,497)
Accounts payable and accrued expenses	31,405	52,772
Refundable advances	<u>(43,600)</u>	<u>23,870</u>
 <i>Net cash provided by operating activities</i>	 <u>124,712</u>	 <u>560,724</u>
 INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(25,497)</u>	<u>-</u>
 FINANCING ACTIVITIES		
Principal payments on notes payable	(125,071)	(107,500)
Principal payments on capital lease obligation	<u>-</u>	<u>(6,680)</u>
 <i>Net cash used in financing activities</i>	 <u>(125,071)</u>	 <u>(114,180)</u>
 NET CHANGE IN CASH	 (25,856)	 446,544
 CASH, BEGINNING OF YEAR	 <u>2,916,783</u>	 <u>2,470,239</u>
 CASH, END OF YEAR	 <u><u>\$ 2,890,927</u></u>	 <u><u>\$ 2,916,783</u></u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 8,751	\$ 11,223

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, 2019 and 2018

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 490 students in grades kindergarten through eight in fiscal year 2019.
- *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 410 students in grades kindergarten through six in fiscal year 2019.

Both Enlace and Kindezi (together referred to as "NCN") 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 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 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 2018-2019 school year, kindergarten through grade four operated as Kindezi Academy and grades five and 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, 2019 and 2018. The value of these services was estimated and have been reflected as in-kind contributions and expenses. See Note 3.

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, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Financial Statement Presentation – Effective with the June 30, 2019 year end, NCN 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. ASU 2016-14 must be applied on a retrospective basis, therefore the net assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

Contributions – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. NCN reports 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets 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, NCN receives an amount per student in equal portion as if NCN 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 NCN's revenue is the product of cost reimbursement grants. Accordingly, NCN 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 consists of short-term, highly liquid investments with original maturities of three months or less. Cash equivalents consisted of a certificate of deposit with a balance of \$75,357 and \$75,282 as of June 30, 2019 and 2018, respectively.

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

Property and Equipment – Purchases of assets and expenditures 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, 2019 and 2018

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, 2019 and 2018, 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 2015 are open to audit for both federal and state purposes.

Functional Expense Reporting – The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Management of the Schools 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.

Subsequent Events – NCN evaluated subsequent events through January 31, 2020, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

NOTE 2 - PRIOR PERIOD ADJUSTMENT

Net assets as of June 30, 2018 has been adjusted to correct grant revenues that should have been recognized during the year ended June 30, 2018. The amount of the adjustment is \$265,651, which is reflected in the accompanying financial statements as an increase in grants revenue during the year ended June 30, 2018, a corresponding increase in grants receivable as of June 30, 2018, and an increase in net assets as of June 30, 2018.

NOTE 3 - VALUATION OF IN-KIND SERVICES

NCN has recorded in-kind contributions and offsetting expenses from IPS, a related party, totaling \$2,772,320 and \$2,139,277 during the years ended June 30, 2019 and 2018, respectively. These in-kind transactions represent approximately 24% and 20% of total revenue and support and 24% and 23% of total expenses for the years ended June 30, 2019 and 2018, respectively. The values of these in-kind services are calculated by IPS using significant estimates and judgments and are recorded by management of NCN as presented.

NEIGHBORHOOD CHARTER NETWORK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 4 - 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, NCN had refundable grant advances in excess of expenditures of \$43,600. No refundable advances existed as of June 30, 2019.

NOTE 5 - NOTES PAYABLE

Notes payable consist of the following at June 30:

	<u>2019</u>	<u>2018</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.	\$ 375,000	\$ 425,000
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.	425,000	475,000
Enlace - Note payable to CSDC Property Corporation, monthly payments of \$2,500, non-interest bearing.	<u>-</u>	<u>25,071</u>
	800,000	925,071
Less: current portion	<u>(100,000)</u>	<u>(125,071)</u>
Long-term portion	\$ <u>700,000</u>	\$ <u>800,000</u>

The notes payable to the State Board of Education are 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.

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

2020	\$ 100,000
2021	100,000
2022	100,000
2023	100,000
2024	100,000
Thereafter	<u>300,000</u>
	\$ <u>800,000</u>

NEIGHBORHOOD CHARTER NETWORK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

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, 2019 and 2018, 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 \$270,320 and \$265,080 for the years ended June 30, 2019 and 2018, 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 and/or the agreements with IPS 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, 2019, 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, 2019, funds held at Key Bank exceeded the FDIC insurance limit.

NOTE 8 - LIQUIDITY

Under ASU 2016-14, NCN is required to disclose the 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. NCN's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total \$3,436,816, all of which are available to meet cash needs for general expenditures within a year.

From time to time, NCN receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, NCN 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 NCN'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.

SUPPLEMENTARY INFORMATION

NEIGHBORHOOD CHARTER NETWORK, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

<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		\$ 183,974
National School Lunch Program	10.555		<u>403,537</u>
<i>Total U.S. Department of Agriculture</i>			<u>587,511</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Grants to Local Educational Agencies	84.010	19-9365	468,554
	84.010	19-9115	199,750
Special Education Cluster			
Special Education - Grants to States	84.027	19611-575-PN01	82,177
	84.027	18611-602-PN01	38,200
English Language Acquisition State Grants	84.365	01119-095-PN01	<u>36,570</u>
<i>Total U.S. Department of Education</i>			<u>825,251</u>
<i>Total federal awards expended</i>			\$ <u><u>1,412,762</u></u>

See independent auditors' report and accompanying notes to this schedule

NEIGHBORHOOD CHARTER NETWORK, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

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, 2019. 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, functional expenses, 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.

NOTE 3 - INDIRECT COST RATE

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

NEIGHBORHOOD CHARTER NETWORK, INC.
SCHEDULE OF FINANCIAL POSITION BY SCHOOL
June 30, 2019

	<u>Enlace</u>	<u>Kindezi</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,947,793	\$ 943,134	\$ -	\$ 2,890,927
Grants receivable	215,923	350,966	(21,000)	545,889
Prepaid expenses	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
<i>Total current assets</i>	<u>2,173,716</u>	<u>1,294,100</u>	<u>(21,000)</u>	<u>3,446,816</u>
PROPERTY AND EQUIPMENT				
Furniture and equipment	68,203	25,497	-	93,700
Less: accumulated depreciation	<u>(64,109)</u>	<u>(3,824)</u>	<u>-</u>	<u>(67,933)</u>
<i>Property and equipment, net</i>	<u>4,094</u>	<u>21,673</u>	<u>-</u>	<u>25,767</u>
TOTAL ASSETS	<u><u>\$ 2,177,810</u></u>	<u><u>\$ 1,315,773</u></u>	<u><u>\$ (21,000)</u></u>	<u><u>\$ 3,472,583</u></u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of notes payable	\$ 50,000	\$ 50,000	\$ -	\$ 100,000
Accounts payable and accrued expenses	<u>174,908</u>	<u>104,109</u>	<u>(21,000)</u>	<u>258,017</u>
<i>Total current liabilities</i>	224,908	154,109	(21,000)	358,017
LONG-TERM LIABILITIES				
Notes payable, net of current portion	<u>325,000</u>	<u>375,000</u>	<u>-</u>	<u>700,000</u>
<i>Total liabilities</i>	549,908	529,109	(21,000)	1,058,017
NET ASSETS,				
WITHOUT DONOR RESTRICTIONS	<u>1,627,902</u>	<u>786,664</u>	<u>-</u>	<u>2,414,566</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,177,810</u></u>	<u><u>\$ 1,315,773</u></u>	<u><u>\$ (21,000)</u></u>	<u><u>\$ 3,472,583</u></u>

See independent auditors' report

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>
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,821,879	\$ 1,094,904	\$ -	\$ 2,916,783
Grants receivable	274,169	243,417	(25,000)	492,586
Prepaid expenses	10,000	-	-	10,000
<i>Total current assets</i>	<u>2,106,048</u>	<u>1,338,321</u>	<u>(25,000)</u>	<u>3,419,369</u>
PROPERTY AND EQUIPMENT				
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>
TOTAL ASSETS	<u><u>\$ 2,123,782</u></u>	<u><u>\$ 1,338,321</u></u>	<u><u>\$ (25,000)</u></u>	<u><u>\$ 3,437,103</u></u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
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
LONG-TERM LIABILITIES				
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
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>1,475,163</u>	<u>766,657</u>	<u>-</u>	<u>2,241,820</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,123,782</u></u>	<u><u>\$ 1,338,321</u></u>	<u><u>\$ (25,000)</u></u>	<u><u>\$ 3,437,103</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, 2019

	<u>Without Donor Restrictions</u>		
	<u>Enlace</u>	<u>Kindezi</u>	<u>Total</u>
REVENUE AND SUPPORT			
State education support	\$ 3,681,390	\$ 2,889,615	\$ 6,571,005
In-kind contribution from IPS	1,172,164	1,600,156	2,772,320
Grant revenue	1,353,613	935,187	2,288,800
Student fees	1,074	442	1,516
Contributions	28,042	22,466	50,508
Interest income	75	-	75
Other income	28,920	27,661	56,581
<i>Total revenue and support</i>	<u>6,265,278</u>	<u>5,475,527</u>	<u>11,740,805</u>
EXPENSES			
Program services	4,826,418	4,353,598	9,180,016
Management and general	1,286,121	1,101,922	2,388,043
<i>Total expenses</i>	<u>6,112,539</u>	<u>5,455,520</u>	<u>11,568,059</u>
CHANGE IN NET ASSETS	152,739	20,007	172,746
NET ASSETS, BEGINNING OF YEAR	<u>1,475,163</u>	<u>766,657</u>	<u>2,241,820</u>
NET ASSETS, END OF YEAR	<u>\$ 1,627,902</u>	<u>\$ 786,664</u>	<u>\$ 2,414,566</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</u>		
	<u>Without Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT							
State education support	\$ 3,118,862	\$ 2,773,125	\$ -	\$ 2,773,125	\$ 5,891,987	\$ -	\$ 5,891,987
In-kind contributions from IPS	910,900	1,135,000	-	1,135,000	2,045,900	-	2,045,900
Grant revenue	1,169,687	824,763	-	824,763	1,994,450	-	1,994,450
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>5,234,748</u>	<u>4,912,976</u>	<u>(114,635)</u>	<u>4,798,341</u>	<u>10,147,724</u>	<u>(114,635)</u>	<u>10,033,089</u>
EXPENSES							
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>
CHANGE IN NET ASSETS	479,037	441,536	(114,635)	326,901	920,573	(114,635)	805,938
NET ASSETS, BEGINNING OF YEAR	<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>
NET ASSETS, END OF YEAR	<u>\$ 1,475,163</u>	<u>\$ 766,657</u>	<u>\$ -</u>	<u>\$ 766,657</u>	<u>\$ 2,241,820</u>	<u>\$ -</u>	<u>\$ 2,241,820</u>

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, 2019 and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2020.

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. The results of our tests disclosed one instance of a material weakness in internal control that was required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding No. 2019-001. Additional material weaknesses may exist that have not been identified.

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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*.

Neighborhood Charter Network, Inc.'s Response to Findings

NCN's response to the finding in our audit is described in the accompanying views of responsible officials and planned corrective action on page 24. NCN's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent "D" at the beginning.

Indianapolis, Indiana
January 31, 2020



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, 2019. 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.

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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, 2019.

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



Indianapolis, Indiana
January 31, 2020

NEIGHBORHOOD CHARTER NETWORK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major 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, 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

NEIGHBORHOOD CHARTER NETWORK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

II. Financial Statement Findings

FINDING 2019-001 REVENUE RECOGNITION
MATERIAL WEAKNESS

Condition

Several material adjustments were required to be proposed and recorded during the audit for the financial statements to be free of material misstatement, including adjustments to move revenues related to federal cost-reimbursement grants into the prior year. Expenditures related to said grants occurred in the prior year but were not applied towards revenue until claims were submitted which resulted in revenues reported in the incorrect period.

Criteria

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

2 CFR part 200.510(b) requires “the auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended.”

Cause

NCN did not reconcile its expenditures for cost reimbursable grants in a timely manner.

Effect

The prior period financial statements had under-reported revenue by \$265,651, \$235,214 of which related to Federal cost-reimbursement grants.

Recommendation

We recommend NCN develop a system of internal controls which allows it to properly identify all transactions required to be recorded for periodic reporting on the accrual basis under accounting principles generally accepted in the United States of America. NCN should specifically ensure all Federal cost reimbursement grant revenues are recorded in the proper period at the time expenses occur.

III. Federal Award Findings and Questioned Costs

No matters were reportable.



January 31, 2020

Donovan CPAs
9292 N. Meridian Street, Suite 150
Indianapolis, IN 46260

The Neighborhood Charter Network recognizes that we did not record all accruals of federal reimbursement grants properly. This was due to two circumstances.

First, as a young and growing network with federal grant dollars flowing to us through three separate LEAs, we did not always have the information we needed in time to properly match revenues and expenditures in the proper reporting period. We understand this is an issue unique to charter schools who are subject to both GAAP and cash basis governmental accounting reporting requirements. Further, it is an issue unique to only our network as each of our two schools is an LEA and the third LEA is a large school corporation with whom we partner to operate a portion of one school. Part of this difficulty will no longer exist in one year when the unique innovation arrangement of operating a portion of a school ends.

Secondly, we did not add sufficient human resource capacity to keep up with the rapid growth of our network. To address that issue, we have implemented the following corrective action plan:

1. We contracted with an operations consultant in the fall of 2019 to evaluate our operational staffing needs
2. We implemented a new purchasing software program to help streamline our purchasing processes, including authorization processes
3. As a result of our operations consultant evaluation, we redistributed duties among our operations staff
4. We added capacity to our staff by adding duties to an existing contractor. As it relates to this audit finding, one of the added duties is grants management and tracking.

Sincerely,

A handwritten signature in black ink that reads "Denise Castellanos".

The Neighborhood Charter Network Management

NEIGHBORHOOD CHARTER NETWORK, INC.
OTHER REPORT
For the Year Ended June 30, 2019

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*.