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February 8, 2021

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, 2019 to June 30, 2020. 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, 2020 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 findings in the report on pages 23 through 25. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's Corrective Action Plan appears on pages 27 and 28.

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 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.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

NEIGHBORHOOD CHARTER NETWORK, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2020 and 2019



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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, 2020 and 2019, 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.

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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, 2020 and 2019, 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 Commissioners of the City of Indianapolis, also known as Indianapolis Public Schools (“IPS”), a related party, totaling \$2,800,197 and \$2,772,320 during the years ended June 30, 2020 and 2019, respectively. These in-kind transactions represent approximately 21% of total revenue and support and 22% of total expenses for the year ended June 30, 2020 (24% and 24%, respectively, for 2019). These amounts are calculated by IPS 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.

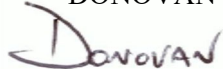
Other Matters

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 February 2, 2021 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
February 2, 2021

NEIGHBORHOOD CHARTER NETWORK, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,155,081	\$ 2,890,927
Grants receivable	957,549	545,889
Prepaid expenses	<u>10,000</u>	<u>10,000</u>
<i>Total current assets</i>	<u>4,122,630</u>	<u>3,446,816</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	93,700	93,700
Less: accumulated depreciation	<u>(77,126)</u>	<u>(67,933)</u>
<i>Property and equipment, net</i>	<u>16,574</u>	<u>25,767</u>
TOTAL ASSETS	<u>\$ 4,139,204</u>	<u>\$ 3,472,583</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 100,000	\$ 100,000
Accounts payable and accrued expenses	<u>377,901</u>	<u>258,017</u>
<i>Total current liabilities</i>	477,901	358,017
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>600,000</u>	<u>700,000</u>
<i>Total liabilities</i>	1,077,901	1,058,017
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>3,061,303</u>	<u>2,414,566</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,139,204</u>	<u>\$ 3,472,583</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
State education support	\$ 7,706,023	\$ 6,571,005
In-kind contribution from Indianapolis Public Schools	2,800,197	2,772,320
Grant revenue	2,849,140	2,288,800
Student fees	5,552	1,516
Contributions	15,300	50,508
Interest income	60	75
Other income	46,965	56,581
	<u>13,423,237</u>	<u>11,740,805</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	10,137,670	9,180,016
Management and general	2,638,830	2,388,043
	<u>12,776,500</u>	<u>11,568,059</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	646,737	172,746
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	<u>2,414,566</u>	<u>2,241,820</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	<u>\$ 3,061,303</u>	<u>\$ 2,414,566</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, 2020 and 2019

	2020			2019		
	Program Services	Management and General	Total	Program Services	Management and General	Total
In-kind expenses:						
Occupancy	\$ 2,073,384	\$ -	\$ 2,073,384	\$ 2,053,534	\$ -	\$ 2,053,534
Special education personnel	309,954	-	309,954	207,794	-	207,794
Security services	-	124,599	124,599	-	102,041	102,041
Transportation	237,892	-	237,892	300,859	-	300,859
Food service	54,368	-	54,368	108,092	-	108,092
<i>Total in-kind expenses</i>	2,675,598	124,599	2,800,197	2,670,279	102,041	2,772,320
Direct expenses:						
Salaries and wages	4,882,219	1,156,240	6,038,459	3,941,184	1,169,647	5,110,831
Employee benefits	835,198	375,176	1,210,374	744,868	374,947	1,119,815
Professional services	397,859	601,576	999,435	410,041	351,963	762,004
Food service expense	562,231	-	562,231	490,264	-	490,264
Books and materials	317,880	96,728	414,608	363,551	89,574	453,125
Student transportation	366,137	-	366,137	385,910	-	385,910
Fee to Indianapolis Public Schools	-	120,000	120,000	-	120,000	120,000
Equipment and supplies	23,666	47,780	71,446	108,935	30,923	139,858
Insurance	33,815	-	33,815	21,687	22,097	43,784
Depreciation	9,193	-	9,193	17,464	-	17,464
Interest	-	7,750	7,750	-	8,751	8,751
Advertising	-	7,688	7,688	-	850	850
Other	33,874	101,293	135,167	25,833	117,250	143,083
<i>Total direct expenses</i>	7,462,072	2,514,231	9,976,303	6,509,737	2,286,002	8,795,739
<i>Total functional expenses</i>	\$ 10,137,670	\$ 2,638,830	\$ 12,776,500	\$ 9,180,016	\$ 2,388,043	\$ 11,568,059

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 646,737	\$ 172,746
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,193	17,464
Change in certain assets and liabilities:		
Grants receivable	(411,660)	(53,303)
Accounts payable and accrued expenses	119,884	31,405
Refundable advances	<u>-</u>	<u>(43,600)</u>
<i>Net cash provided by operating activities</i>	364,154	124,712
INVESTING ACTIVITIES		
Purchase of property and equipment	-	(25,497)
FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(100,000)</u>	<u>(125,071)</u>
NET CHANGE IN CASH	264,154	(25,856)
CASH, BEGINNING OF YEAR	<u>2,890,927</u>	<u>2,916,783</u>
CASH, END OF YEAR	<u><u>\$ 3,155,081</u></u>	<u><u>\$ 2,890,927</u></u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 7,750	\$ 8,751

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, 2020 and 2019

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 570 students in grades kindergarten through eight during the 2019-2020 school year (490 students during the 2018-2019 school year).
- *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 460 students in grades kindergarten through six during the 2019-2020 school year (410 students during the 2018-2019 school year).

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

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 was last renewed on July 1, 2020 and 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 2019-2020 school year, kindergarten through grade five operated as Kindezi Academy and grade six operated as Joyce Kilmer Academy 69. Beginning in the 2020-2021 school year, Kindezi Academy will serve all grades kindergarten through six. The agreement is for a term of five years, with the option to renew 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 Kindezi Academy and Joyce Kilmer Academy 69 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, 2020 and 2019. The values of these services were estimated and have been reflected as in-kind contributions and expenses. See Note 2.

NEIGHBORHOOD CHARTER NETWORK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting and Use of Estimates – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Financial Statement Presentation – NCN reports its financial position and activities according to two classes of net assets:

- Net assets without donor restrictions, which include unrestricted resources that are available for the operating objectives of the School; and
- Net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

As of June 30, 2020 and 2019, NCN had only net asset without donor 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 significant 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.

NCN has elected to defer implementation of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral, which NCN elected. Management believes the implementation of ASU 2014-09 will not significantly affect how NCN reports revenue.

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 \$75,417 and \$75,357 as of June 30, 2020 and 2019, 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.

NEIGHBORHOOD CHARTER NETWORK, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, 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.

Taxes on Income – NCN 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, 2020 and 2019, 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 2016 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 NCN 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 February 2, 2021, 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 \$2,800,197 and \$2,772,320 during the years ended June 30, 2020 and 2019, respectively. These in-kind transactions represent approximately 21% and 24% of total revenue and support and 22% and 24% of total expenses for the years ended June 30, 2020 and 2019, 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, 2020 and 2019

NOTE 3 - NOTES PAYABLE

Notes payable consist of the following at June 30:

	<u>2020</u>	<u>2019</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	\$ 325,000	\$ 375,000
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	<u>375,000</u>	<u>425,000</u>
	700,000	800,000
Less: current portion	<u>(100,000)</u>	<u>(100,000)</u>
Long-term portion	\$ <u>600,000</u>	\$ <u>700,000</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 funding from IPS.

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

2021	\$ 100,000
2022	100,000
2023	100,000
2024	100,000
2025	100,000
Thereafter	<u>200,000</u>
	\$ <u>700,000</u>

NOTE 4 - 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, 2020 and 2019, 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 \$488,332 and \$270,320 for the years ended June 30, 2020 and 2019, respectively.

NEIGHBORHOOD CHARTER NETWORK, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 5 - 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, 2020 and 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, 2020 and 2019, funds held at Key Bank exceeded the FDIC insurance limit.

NOTE 6 - LIQUIDITY

NCN's financial assets include cash and grants receivable. Financial assets at June 30, 2020 and 2019 total \$4,112,630 and \$3,436,816, respectively, 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, 2020

<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		\$ 160,977
COVID-19 - School Breakfast Program	10.553		11,524
National School Lunch Program	10.555		352,185
COVID-19 – National School Lunch Program	10.555		<u>26,118</u>
<i>Total U.S. Department of Agriculture</i>			<u>550,804</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Grants to Local Educational Agencies	84.010	S010A190014	492,631
	84.010	S010A190014	274,857
Special Education Cluster			
Special Education - Grants to States	84.027	20611-575-PN01	93,211
	84.027	20611-602-PN01	98,312
Title II, Supporting Effective Instruction State Grants			
	84.367A	S367A190013	64,198
	84.367A	S367A190013	15,577
Title III, English Language Acquisition State Grants			
	84.365A	S365A190014	26,854
	84.365A	S365A190014	2,304
Title IV, Student Support and Academic Enrichment Program			
	84.424A	S424A190015	40,874
	84.424A	S424A190015	8,584
COVID-19 Elementary and Secondary School Emergency Relief Fund			
	84.425D		29,013
	84.425D		<u>12,423</u>
<i>Total U.S. Department of Education</i>			<u>1,158,838</u>
<i>Total federal awards expended</i>			<u>\$ 1,709,642</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, 2020

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, 2020. 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, 2020

	<u>Enlace</u>	<u>Kindezi</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash	\$ 1,933,364	\$ 1,221,717	\$ 3,155,081
Grants receivable	549,413	408,136	957,549
Prepaid expenses	10,000	-	10,000
<i>Total current assets</i>	<u>2,492,777</u>	<u>1,629,853</u>	<u>4,122,630</u>
PROPERTY AND EQUIPMENT			
Furniture and equipment	68,203	25,497	93,700
Less: accumulated depreciation	<u>(68,203)</u>	<u>(8,923)</u>	<u>(77,126)</u>
<i>Property and equipment, net</i>	<u>-</u>	<u>16,574</u>	<u>16,574</u>
TOTAL ASSETS	<u><u>\$ 2,492,777</u></u>	<u><u>\$ 1,646,427</u></u>	<u><u>\$ 4,139,204</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>212,941</u>	<u>164,960</u>	<u>377,901</u>
<i>Total current liabilities</i>	262,941	214,960	477,901
LONG-TERM LIABILITIES			
Notes payable, net of current portion	<u>275,000</u>	<u>325,000</u>	<u>600,000</u>
<i>Total liabilities</i>	537,941	539,960	1,077,901
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>1,954,836</u>	<u>1,106,467</u>	<u>3,061,303</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,492,777</u></u>	<u><u>\$ 1,646,427</u></u>	<u><u>\$ 4,139,204</u></u>

See independent auditors' report

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	10,000	-	-	10,000
<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 ACTIVITIES AND CHANGE IN NET ASSETS BY SCHOOL
For the Year Ended June 30, 2020

	<u>Enlace</u>	<u>Kindezi</u>	<u>Total</u>
REVENUE AND SUPPORT			
State education support	\$ 4,316,132	\$ 3,389,891	\$ 7,706,023
In-kind contribution from Indianapolis Public Schools	1,176,171	1,624,026	2,800,197
Grant revenue	1,682,856	1,166,284	2,849,140
Student fees	5,552	-	5,552
Contributions	300	15,000	15,300
Interest income	60	-	60
Other income	32,854	14,111	46,965
	<u>7,213,925</u>	<u>6,209,312</u>	<u>13,423,237</u>
<i>Total revenue and support</i>			
EXPENSES			
Program services	5,385,958	4,751,712	10,137,670
Management and general	1,501,033	1,137,797	2,638,830
	<u>6,886,991</u>	<u>5,889,509</u>	<u>12,776,500</u>
<i>Total expenses</i>			
CHANGE IN NET ASSETS	326,934	319,803	646,737
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	<u>1,627,902</u>	<u>786,664</u>	<u>2,414,566</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	<u>\$ 1,954,836</u>	<u>\$ 1,106,467</u>	<u>\$ 3,061,303</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>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
	<u>6,265,278</u>	<u>5,475,527</u>	<u>11,740,805</u>
<i>Total revenue and support</i>			
EXPENSES			
Program services	4,826,418	4,353,598	9,180,016
Management and general	1,286,121	1,101,922	2,388,043
	<u>6,112,539</u>	<u>5,455,520</u>	<u>11,568,059</u>
<i>Total expenses</i>			
CHANGE IN NET ASSETS	152,739	20,007	172,746
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	<u>1,475,163</u>	<u>766,657</u>	<u>2,241,820</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	<u>\$ 1,627,902</u>	<u>\$ 786,664</u>	<u>\$ 2,414,566</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, 2020 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 February 2, 2021.

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.

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

Indianapolis, Indiana
February 2, 2021



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 NCN's major federal program for the year ended June 30, 2020. NCN's major federal program is 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 NCN's major federal program 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 the major federal program. However, our audit does not provide a legal determination of NCN's compliance.

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Opinion on Major Federal Program

In our opinion, NCN complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Uniform Guidance* and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2020-001 and Finding No. 2020-002. Our opinion on the major federal program is not modified with respect to these matters.

NCN's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NCN's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control over Compliance

Management of NCN 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 the 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 the 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 identified two deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as Finding No. 2020-001 and Finding No. 2020-002, which we consider to be significant deficiencies.

NCN's responses to the internal control over compliance findings identified in our audit are described in the corrective action plans on pages 27 and 28. NCN's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Indianapolis, Indiana
February 2, 2021

NEIGHBORHOOD CHARTER NETWORK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

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?	Yes
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)?	Yes
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

II. Financial Statement Findings

No matters are reportable.

NEIGHBORHOOD CHARTER NETWORK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

III. Federal Award Findings and Questioned Costs

FINDING NO. 2020-001 STUDENT TRANSFER SUPPORT

SIGNIFICANT DEFICIENCY

Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010

Condition

Neighborhood Charter Network, Inc. was unable to provide documentation to support student transfers for students selected for testing of its Kindezi Academy location from the October 1, 2018 Real Time Data report submitted to the State of Indiana. This report is used as part of the application for Title I funds. Date on transfers provides information on students removed from the regularly adjusted cohort.

Criteria

2 CFR part 200.334 requires that “Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.”

Cause

Neighborhood Charter Network, Inc. did not retain documentation that supported the date on which students transferred to another school.

Effect

Compliance with Special Tests and Provisions requirements from the Compliance Supplement could not be verified.

Recommendation

We recommend Neighborhood Charter Network, Inc. implement a process to ensure documentation is properly retained to document the exit of students from the regulatory adjusted cohort.

Views of Responsible Officials

Neighborhood Charter Network, Inc.’s Corrective Action Plan is included on pages 27 and 28.

NEIGHBORHOOD CHARTER NETWORK, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

III. Federal Award Findings and Questioned Costs, Continued

FINDING NO. 2020-002 ACTIVITIES ALLOWED OR UNALLOWED
SIGNIFICANT DEFICIENCY

Federal Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010

Condition

Neighborhood Charter Network, Inc. was unable to provide documentation to support that the students who received Title I services were eligible to receive Title I services. Neighborhood Charter Network, Inc. was unable to provide any determination for fourteen of the forty students tested.

Criteria

2 CFR part 200.334 requires that “Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.”

Cause

Neighborhood Charter Network, Inc. did not retain documentation that supported the eligibility determination for students receiving Title I services.

Effect

Compliance with Activities Allowed or Unallowed requirements from the Compliance Supplement could not be verified.

Recommendation

We recommend Neighborhood Charter Network, Inc. implement a process to ensure documentation is properly retained to document the targeted students’ eligibility for receiving Title I services.

Views of Responsible Officials

Neighborhood Charter Network, Inc.’s Corrective Action Plan is included on pages 27 and 28.

NEIGHBORHOOD CHARTER NETWORK, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2020

FINDING 2019-001 (FINANCIAL STATEMENT FINDING)

MATERIAL WEAKNESS
REVENUE RECOGNITION

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.

Recommendation

It was recommended that Neighborhood Charter Network, Inc. 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. Neighborhood Charter Network, Inc. should specifically ensure all Federal cost reimbursement grant revenues are recorded in the proper period at the time expenses occur.

Current Status

Neighborhood Charter Network, Inc. was able to materially remedy issues related to federal cost-reimbursement grants.



February 2, 2021

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

The Neighborhood Charter Network has already or will take the following actions to address the FY2020 Single Audit Report findings:

1. FINDING NO. 2020-001 STUDENT TRANSFER SUPPORT

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

The Neighborhood Charter Network understands the importance of accurate controls and proper student records. Denise Castellanos, Director of Operations for Neighborhood Charter Network, will conduct an internal audit of the student records at Kindezi Academy starting with records from July 1, 2019 moving forward. The NCN Team, along with the School Administration at Kindezi Academy, will identify any gaps in student records and implement a new process to ensure all students records are complete, including any student transfer support and documentation. The Neighborhood Charter Network and Kindezi Academy will implement these changes and address any gaps by April 1, 2021.

2. FINDING NO. 2020-002 ACTIVITIES ALLOWED OR UNALLOWED

Federal Program: Title I Grants to Local Educational Agencies

CFDA Number: 84.010

The Neighborhood Charter Network understands the importance of accurate controls and properly identifying Title I Eligible students. For the FY21 School Year, Enlace Academy was indeed approved as a School Wide School. Due to this approval, all students at Enlace Academy for the FY21 School year at Title I Eligible according to the guidelines within the School Wide program.

In addition, Denise Castellanos, Director of Operations for Neighborhood Charter Network, will conduct an internal audit of the Title I Eligible students at Kindezi Academy starting with records from July 1, 2020 moving forward. The NCN Team, along with the School Administration at Kindezi Academy, will review the Title I Eligibility Policy and revise, if necessary. The Neighborhood Charter Network will ensure all students served under the Title I Program are indeed Title



I eligible and meet the criteria according to the updated policy. The Neighborhood Charter Network and Kindezi Academy will implement these changes and address any gaps by April 1, 2021.

Sincerely,

Denise Castellanos

The Neighborhood Charter Network Management
Denise Castellanos, Director of Operations

NEIGHBORHOOD CHARTER NETWORK, INC.
OTHER REPORT
For the Year Ended June 30, 2020

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*.