



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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May 13, 2014

Charter School Board  
Neighbor's Educational Opportunities, Inc.  
5391 Central Avenue  
Portage, IN 46368

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Neighbor's Educational Opportunities, Inc., as of June 30, 2013, 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. Pages 20 and 21 contain one current audit finding. Management's response is on page 23.

In addition to the report presented herein, a Supplemental Audit Report for Neighbor's Educational Opportunities, 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*  
Paul D. Joyce, CPA  
State Examiner

**NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.**

*Financial Statements and Federal Single Audit Report*

*June 30, 2013 and 2012*

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-11
Supplementary Information:	
Schedule of Expenditures of Federal Awards	12
Notes to Schedule of Expenditures of Federal Awards	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14-15
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	16-18
Schedule of Findings and Questioned Costs	19-21
Other Reports	22
Views of Responsible Officials and Planned Corrective Action	Attachment A

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Neighbors' Educational Opportunities, Inc.

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

We have audited the accompanying financial statements of **Neighbors' Educational Opportunities, Inc.**, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities 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.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighbors' Educational Opportunities, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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 March 3, 2014 on our consideration of Neighbors' Educational Opportunities, 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 Neighbors' Educational Opportunities, Inc.'s internal control over financial reporting and compliance.



Indianapolis, IN  
March 3, 2014

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Financial Position

Assets	June 30	
	2013	2012
Current assets:		
Cash	\$ 170,809	21,607
Grants receivable	6,535	72,891
Prepaid expenses	13,875	-
	<u>\$ 191,219</u>	<u>94,498</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 89,218	17,509
Current portion of capital lease obligation	11,648	-
Note payable	-	82,000
Refundable advances	9,998	5,971
Total current liabilities	<u>110,864</u>	<u>105,480</u>
Capital lease obligation	<u>13,921</u>	-
Total liabilities	<u>124,785</u>	<u>105,480</u>
Unrestricted net assets (deficiency)	<u>66,434</u>	<u>(10,982)</u>
	<u>\$ 191,219</u>	<u>94,498</u>

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Activities

	Year Ended June 30	
	2013	2012
<u>Revenue and Support</u>		
Grant revenue	\$ 1,438,396	519,439
Student fees	41,930	62,898
Contributions	9,845	20,927
Other income	16,121	5,724
Total revenue and support	<u>1,506,292</u>	<u>608,988</u>
<u>Expenses</u>		
Program services	1,317,232	482,675
Management and general	111,644	137,405
Total expenses	<u>1,428,876</u>	<u>620,080</u>
Increase (decrease) in net assets	77,416	(11,092)
Net assets (deficiency), beginning of year	<u>(10,982)</u>	<u>110</u>
Net assets (deficiency), end of year	<u>\$ 66,434</u>	<u>(10,982)</u>

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Cash Flows

	<u>Year Ended June 30</u>	
	<u>2013</u>	<u>2012</u>
<u>Operating Activities</u>		
Increase (decrease) in net assets	\$ 77,416	(11,092)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Equipment expensed under capital lease	35,602	-
Change in:		
Grants receivable	66,356	(72,891)
Prepaid expenses	(13,875)	-
Accounts payable and accrued expenses	71,709	17,509
Refundable advances	4,027	5,971
Net cash provided (used) by operating activities	<u>241,235</u>	<u>(60,503)</u>
<u>Financing Activities</u>		
Proceeds from bank borrowings	100,000	82,000
Repayment of bank borrowings	(182,000)	-
Principal payments under capital lease obligation	(10,033)	-
Net cash provided (used) by financing activities	<u>(92,033)</u>	<u>82,000</u>
Net increase in cash	149,202	21,497
Cash, beginning of year	<u>21,607</u>	<u>110</u>
Cash, end of year	<u>\$ 170,809</u>	<u>21,607</u>
Supplemental disclosures:		
Cash payments for interest expense	\$ 5,570	3,268

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

General

Neighbors' Educational Opportunities, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School was incorporated on March 21, 2011 to operate an adult education program for residents of Porter and Lake Counties in Indiana. In 2012, the School was sponsored by Ball State University to operate a public charter high school for non-traditional students under Indiana Code 20-24. The charter school commenced operations with the 2012-13 academic year.

Accounting Estimates

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

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments. Revenue is recognized in the year in which educational services are rendered.

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

Accounts Receivable

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

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases are charged to expense as incurred. No purchases met the School's capitalization policy in the years ended June 30, 2013 and 2012.

Taxes on Income

Neighbors' Educational Opportunities, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2013 and 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions.

Subsequent Events

The School evaluated subsequent events through March 3, 2014, 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.

Reclassifications

Certain figures for 2012 that were previously reported have been reclassified for comparative purposes.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(2) Notes Payable

In 2012, the School had a term loan from 1<sup>st</sup> Source Bank in the amount of \$82,000. The loan provided for interest at 2.7% above the lender's prime rate and was payable in monthly installments of \$16,654 in August through December 2012. This loan was repaid in the year ended June 30, 2013.

On October 1, 2012, the School executed another short term loan from 1<sup>st</sup> Source Bank in the amount of \$100,000. The loan provided for interest at 6.75% per annum, due with one installment of principal and interest payable on January 1, 2013. This loan was also repaid in the year ended June 30, 2013.

(3) Leases

The School leases computer equipment under a capital lease. The lease provides that the School obtains ownership of the equipment at the end of the lease term. The computer equipment has been expensed in accordance with the School's capitalization policy.

The following is a schedule of future minimum lease payments under this capital lease and the present value of net minimum lease payments as of June 30, 2013:

<u>Year Ending June 30:</u>	
2014 .....	\$13,570
2015 .....	13,570
2016 .....	<u>1,131</u>
Total minimum lease payments.....	28,271
Less: amount representing interest .....	<u>(2,702)</u>
	<u>\$25,569</u>

The School also leases its school facility as well as one item of office equipment under operating leases. The facility lease is for a one-year term with rent of \$7,731 payable monthly. The equipment lease matures in December 2014. Expense under these operating leases for the years ended June 30, 2013 and 2012 was \$86,034 and \$20,235.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(4) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2013 and 2012, the School had refundable grant advances in excess of expenditures of \$9,998 and \$5,971, respectively.

(5) Commitments

The charter high school operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support received with payments beginning in January 2013. Expense under this charter agreement was \$11,382 for the year ended June 30, 2013. The charter will remain in effect until June 30, 2017 and is renewable thereafter by mutual consent.

(6) Risks and Uncertainties

The School provides educational instruction services to persons residing in Porter and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist of receivables from Center of Workforce Innovations, Inc. and the State of Indiana.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(7) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2013 and 2012:

	<u>2013</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages .....	\$ 768,933	67,784
Employee benefits.....	147,658	13,016
Staff development .....	5,247	-
Classroom supplies .....	53,715	-
Content .....	55,443	-
Occupancy.....	105,862	-
Contracted IT services .....	11,514	-
Office expense .....	9,229	14,504
Professional services.....	76,659	2,600
Travel .....	-	2,296
Equipment.....	80,322	-
Interest .....	-	5,570
Insurance .....	-	5,874
Other .....	<u>2,650</u>	<u>-</u>
	<u>\$1,317,232</u>	<u>111,644</u>

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(7) Functional Expense Reporting, Continued

	<u>2012</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages .....	\$309,649	79,307
Employee benefits.....	27,596	12,428
Staff development .....	2,600	4,600
Classroom supplies .....	45,807	-
Occupancy.....	82,110	-
Contracted IT services .....	14,713	-
Professional services.....	-	22,317
Pre-planning services .....	-	8,350
Interest .....	-	3,268
Insurance .....	-	5,887
Other .....	<u>200</u>	<u>1,248</u>
	<u>\$482,675</u>	<u>137,405</u>

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

<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 EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	13-9730	\$ 34,955
Special Education Cluster			
Special Education - Grants to States	84.027	14213-567-PN01	20,522
Charter Schools Program	84.282	A58-13SS-1003	328,446
Improving Teacher Quality State Grants	84.367		4,605
Pass-through Center for Workforce Innovation			
Adult Education - Basic Grants to States	84.002	CWI-AE-06-PY12	126,653
Total for federal grantor agency			<u>515,181</u>
Total federal awards expended			<u>\$ 515,181</u>

See accompanying Independent Auditor's Report.  
See accompanying notes to this schedule.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Neighbors' Educational Opportunities, Inc. (the "School") under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

INDEPENDENT AUDITOR'S 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  
Neighbors' Educational Opportunities, 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 **Neighbors' Educational Opportunities, Inc.** (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 3, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School'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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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, and therefore material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2013-1 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School'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 the School'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.



Indianapolis, IN  
March 3, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors  
Neighbors' Educational Opportunities, Inc.

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

We have audited **Neighbors' Educational Opportunities, Inc.**'s (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2013. The School's major federal programs are identified in the summary of auditor's 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the School'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the School'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 the School's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Neighbors' Educational Opportunities, 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, 2013.

### **Report on Internal Control Over Compliance**

Management of Neighbors' Educational Opportunities, 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 the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the 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 OMB Circular A-133, 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 the School'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 might be material weaknesses or significant deficiencies. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Raymond J. Lane III*

Indianapolis, IN  
March 3, 2014

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

**I. Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Noncompliance noted which is material to financial statements:	No

*Federal Awards*

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	No

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

**I. Summary of Auditor's Results, Continued**

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.282	Charter Schools Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee:	No

**II. Financial Statement Findings**

SIGNIFICANT DEFICIENCY

NO. 2013-1 FINANCIAL REPORTING

Condition

The School maintains its accounting records on an automated cash basis fund accounting system. Management's implementation of the system did not provide for segregation of activity for each grant into a separate fund as a means to produce financial reports. The accounting system also does not have the capability to produce accrual basis financial statements, and management did not develop the means to prepare accrual basis financial statements through alternate means, resulting in numerous audit adjustments.

Criteria

OMB Circular A-110, section \_\_\_\_.21 states, in part:

“(b) Recipients’ financial management systems shall provide for the following.

(1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with reporting requirements set forth in Section \_\_\_\_\_.52...

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

**II. Financial Statement Findings, Continued**

(2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.”

Cause

With the first year of operation as a charter school, the School installed a fund accounting system with the capability to manage the financial accounting and reporting required by the Indiana Department of Education. Provision was not made for financial reporting for other purposes.

Effect

Without a systematic process in place, the organization may produce inaccurate and unreliable financial reports.

Recommendation

A systematic process should be implemented that is capable of producing financial statements on an accrual basis of accounting. In addition, the manner in which the fund accounting system has been established should be re-designed to separately account for each grant and/or program activity.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

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

No matters were reportable.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Other Reports

Year Ended June 30, 2013

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

Supplemental Audit Report of Neighbors' Educational Opportunities, 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*.



## *Neighbors' Educational Opportunities, Inc.*

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Rebecca Reiner, *Executive Director*

*Neighbors' Portage Adult Education*  
*Neighbors' New Vistas High School*

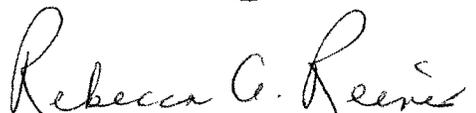
5391 Central Avenue  
Portage, Indiana 46368  
Phone: (219) 850-4448  
FAX : (219) 850-4445

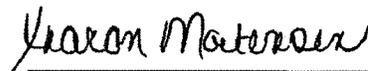
### **Response to A-133 findings:**

For accrual accounting purposes management has implemented the use of an accrual accounting system to be maintained simultaneously with the fund accounting system ensuring maintenance of proper financial records.

As all local, state, and federal grants are awarded they are now assigned a fund number and approved receipt and applicable expenditure account codes are determined to ensure accurate fund accounting for all funds, general and grant funds included.

  
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Shanta M. Belyeu, Business Manager

  
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Rebecca A. Reiner, Executive Director

  
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Sharon Mortensen, Board President