



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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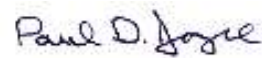
April 16, 2015

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, 2013 to June 30, 2014. 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, 2014, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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, CPA
State Examiner

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Financial Statements

June 30, 2014 and 2013

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

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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, 2014 and 2013, 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. 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, 2014 and 2013 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.

A handwritten signature in cursive script, appearing to read "Raymond J. Lane".

Indianapolis, IN
February 27, 2015

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Financial Position

Assets	June 30	
	2014	2013
Current assets:		
Cash	\$ 68,293	170,809
Grants receivable	76,661	6,535
Prepaid expenses	14,599	13,875
Total current assets	<u>159,553</u>	<u>191,219</u>
Property and equipment:		
Computers	31,134	-
Furniture and equipment	42,716	-
Less: accumulated depreciation	(14,964)	-
Total property and equipment, net	<u>58,886</u>	<u>-</u>
	<u>\$ 218,439</u>	<u>191,219</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 111,796	89,218
Current portion of capital lease obligation	14,411	11,648
Refundable advances	-	9,998
Total current liabilities	<u>126,207</u>	<u>110,864</u>
Capital lease obligation	-	13,921
Total liabilities	<u>126,207</u>	<u>124,785</u>
Unrestricted net assets	<u>92,232</u>	<u>66,434</u>
	<u>\$ 218,439</u>	<u>191,219</u>

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Activities

	Year Ended June 30	
	2014	2013
<u>Revenue and Support</u>		
State education support	\$ 1,019,699	420,646
Grant revenue	534,135	1,017,750
Student fees	50,629	41,930
Contributions	12,683	9,845
Other income	17,764	16,121
Total revenue and support	<u>1,634,910</u>	<u>1,506,292</u>
<u>Expenses</u>		
Program services	1,203,953	1,305,850
Management and general	405,159	123,026
Total expenses	<u>1,609,112</u>	<u>1,428,876</u>
Increase in net assets	25,798	77,416
Net assets (deficiency), beginning of year	<u>66,434</u>	<u>(10,982)</u>
Net assets, end of year	<u>\$ 92,232</u>	<u>66,434</u>

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Cash Flows

	Year Ended June 30	
	2014	2013
<u>Operating Activities</u>		
Increase in net assets	\$ 25,798	77,416
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	14,964	
Equipment expensed under capital lease	-	35,602
Change in:		
Grants receivable	(70,126)	66,356
Prepaid expenses	(724)	(13,875)
Accounts payable and accrued expenses	22,578	71,709
Refundable advances	(9,998)	4,027
Net cash provided (used) by operating activities	<u>(17,508)</u>	<u>241,235</u>
<u>Investing Activities</u>		
Purchase of property and equipment	(73,850)	-
Net cash used by investing activities	<u>(73,850)</u>	<u>-</u>
<u>Financing Activities</u>		
Proceeds from bank borrowings	-	100,000
Repayment of bank borrowings	-	(182,000)
Principal payments under capital lease obligation	(11,158)	(10,033)
Net cash used by financing activities	<u>(11,158)</u>	<u>(92,033)</u>
Net increase (decrease) in cash	(102,516)	149,202
Cash, beginning of year	<u>170,809</u>	<u>21,607</u>
Cash, end of year	<u>\$ 68,293</u>	<u>170,809</u>
Supplemental disclosures:		
Cash payments for interest expense	\$ 3,887	5,570

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

June 30, 2014 and 2013

(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 monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A significant 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.

Grants Receivable

Grants receivable relate primarily to activities funded under federal programs 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. Depreciation is provided over the estimated useful lives of the respective assets (generally three to five years) using the straight-line method.

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, 2014 and 2013, 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 February 27, 2015, 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 2013 that were previously reported have been reclassified for comparative purposes.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(2) 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 lease is scheduled to be paid in full in 2015.

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 \$8,888 payable monthly. The equipment lease matures in December 2018. Expense under these operating leases for the years ended June 30, 2014 and 2013 was \$114,243 and \$86,034, respectively.

A schedule of future minimum obligations under non-cancelable operating leases with a remaining term in excess of one year as of June 30, 2014 follows:

Year Ending June 30:

2015	\$10,020
2016	10,020
2017	10,020
2018	10,020
2019	5,010

(3) Refundable Advances

The School has been awarded grants from various entities 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, the School had refundable grant advances in excess of expenditures of \$9,998.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(4) 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. Expense under this charter agreement was \$29,866 and \$11,382 for the years ended June 30, 2014 and 2013, respectively. The charter will remain in effect until June 30, 2017 and is renewable thereafter by mutual consent.

(5) 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

(6) 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, 2014 and 2013:

	<u>2014</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages	\$ 760,908	271,100
Employee benefits.....	114,465	40,782
Staff development	18,519	-
Authorizer oversight fees.....	-	29,866
Classroom supplies	46,315	-
Content.....	4,978	-
Occupancy.....	129,952	-
Contracted IT services	42,047	-
Office expense	28,162	14,107
Professional services	8,207	32,316
Travel	3,590	7,547
Equipment	29,297	-
Interest	-	3,887
Insurance	-	5,248
Depreciation	14,964	-
Other	<u>2,549</u>	<u>306</u>
	<u>\$1,203,953</u>	<u>405,159</u>

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(6) Functional Expense Reporting, Continued

	2013	
	<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	-
Authorizer oversight fees	-	11,382
Classroom supplies	53,715	-
Content	55,443	-
Occupancy	105,862	-
Contracted IT services	11,514	-
Office expense	9,229	14,504
Professional services	65,277	2,600
Travel	-	2,296
Equipment	80,322	-
Interest	-	5,570
Insurance	-	5,874
Other	<u>2,650</u>	<u>-</u>
	<u>\$1,305,850</u>	<u>123,026</u>

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Other Reports

Year Ended June 30, 2014

The report presented herein was 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*.