



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B42241

STATE BOARD OF ACCOUNTS
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May 21, 2013

Charter School Board
Neighbors' 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, 2011 to June 30, 2012. 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 Neighbors' Educational Opportunities, Inc., as of June 30, 2012, 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 Neighbors' 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.

State Board of Accounts

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Financial Statements

June 30, 2012

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Neighbors' Educational Opportunities, Inc.

We have audited the accompanying statement of financial position of **Neighbors' Educational Opportunities, Inc.** (the "School") as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of the School. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Fitzgerald Isaac LLC

Indianapolis, IN
April 15, 2013

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash	\$ 21,607
Grants receivable from Center of Workforce Innovations, Inc.	<u>72,891</u>
	<u>\$ 94,498</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 17,509
Note payable	82,000
Refundable advance	<u>5,971</u>
Total current liabilities	<u>105,480</u>
Unrestricted net assets (deficiency)	<u>(10,982)</u>
	<u>\$ 94,498</u>

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statement of Activities

	Year Ended June 30, 2012
<u>Revenue, Gains and Support</u>	
Grant revenue	\$ 519,439
Student fees	62,898
Contributions	20,927
Other income	5,724
Total revenue, gains and support	<u>608,988</u>
<u>Expenses</u>	
Program services:	
Educational instruction	363,377
Education support	119,298
Administrative	137,405
Total expenses	<u>620,080</u>
Decrease in net assets	(11,092)
Net assets, beginning of year	<u>110</u>
Net assets (deficiency), end of year	<u>\$ (10,982)</u>

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statement of Cash Flows

	Year Ended June 30, 2012
<u>Operating Activities</u>	
Decrease in net assets	\$ (11,092)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Change in:	
Grants receivable	(72,891)
Accounts payable and accrued expenses	17,509
Refundable advances	5,971
Net cash used by operating activities	<u>(60,503)</u>
<u>Financing Activities</u>	
Proceeds from bank borrowing	82,000
Net cash provided by financing activities	<u>82,000</u>
Net increase in cash	21,497
Cash, beginning of year	<u>110</u>
Cash, end of year	<u>\$ 21,607</u>
Supplemental disclosures:	
Cash payments for interest expense	\$ 3,268

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

June 30, 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 and operates an adult education program for residents of Porter and Lake Counties in Indiana. The School has also been sponsored by Ball State University to operate a public charter high school for non-traditional students under Indiana Code 20-24-3-1, which commenced operations with the 2012-13 school 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

The primary funding for the School comes under cost reimbursement grants from federal and state sources. As such, the School recognizes revenue under these grants in relation to the amounts of costs and expenses at the time that they are incurred.

The School also receives funding based on student enrollment and or registration. These resources are recognized as revenue in the period that services are rendered.

Grants Receivable

Grants receivable relate to activities funded under federal and state grants. 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

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 year ended June 30, 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional 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 April 15, 2013, 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.

(2) Note Payable

The School has a term loan from 1st Source Bank in the amount of \$82,000. The loan provides for interest at 2.7% above the lender's prime rate and is payable in monthly installments of \$16,654 in August through December 2012.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(3) Leases

The School 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 operating leases for the year ended June 30, 2012 was \$20,235. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

Year Ending June 30:

2013	\$4,764
2014	4,764
2015	2,382

(4) Commitments

The charter high school will operate 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 with payments beginning in January 2013. 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.

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 among the programs and services benefited. Following is a summary of expenses comprising each program and/or service for the year ended June 30, 2012:

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Admini- strative</u>
Salaries and wages	\$273,350	36,299	79,307
Employee benefits.....	24,561	3,035	12,428
Staff development	2,600	-	4,600
Classroom supplies	45,807	-	-
Occupancy	17,059	-	-
Contracted IT services	-	14,713	-
Contracted custodial services.....	-	49,661	-
Professional services.....	-	-	22,317
Utilities.....	-	15,390	-
Pre-planning services	-	-	8,350
Interest	-	-	3,268
Insurance	-	-	5,887
Other	-	200	1,248
	<u>\$363,377</u>	<u>119,298</u>	<u>137,405</u>

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Other Reports

Year Ended June 30, 2012

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*.