



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B46167

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April 15, 2016

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 Donovan P.C., Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. 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, 2015, 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.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Financial Statements

June 30, 2015 and 2014



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, 2015 and 2014, 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, 2015 and 2014 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.

Donovan P.C.

Indianapolis, IN
February 11, 2016

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Financial Position

<u>Assets</u>	June 30	
	2015	2014
Current assets:		
Cash	\$ 151,535	68,293
Grants receivable	134,971	76,481
Other receivables	10,412	180
Prepaid expenses	1,827	14,599
Total current assets	298,745	159,553
Property and equipment:		
Computers	55,264	31,134
Furniture and equipment	60,301	42,716
Less: accumulated depreciation	(37,541)	(14,964)
Total property and equipment, net	78,024	58,886
	\$ 376,769	218,439
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 99,647	111,796
Current portion of capital lease obligation	-	14,411
Total current liabilities	99,647	126,207
Unrestricted net assets	277,122	92,232
	\$ 376,769	218,439

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Activities

	Year Ended June 30	
	2015	2014
<u>Revenue and Support</u>		
State education support	\$ 1,288,825	1,019,699
Grant revenue	630,682	534,135
Student fees	38,640	50,629
Contributions	10,691	12,683
Other income	4,095	17,764
Total revenue and support	<u>1,972,933</u>	<u>1,634,910</u>
<u>Expenses</u>		
Program services	1,292,321	1,203,953
Management and general	495,722	405,159
Total expenses	<u>1,788,043</u>	<u>1,609,112</u>
Increase in net assets	184,890	25,798
Net assets, beginning of year	<u>92,232</u>	<u>66,434</u>
Net assets, end of year	<u>\$ 277,122</u>	<u>92,232</u>

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
<u>Operating Activities</u>		
Increase in net assets	\$ 184,890	25,798
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	22,577	14,964
Change in:		
Grants receivable	(58,490)	(69,946)
Other receivables	(10,232)	(180)
Prepaid expenses	12,772	(724)
Accounts payable and accrued expenses	(12,149)	22,578
Refundable advances	-	(9,998)
Net cash provided (used) by operating activities	<u>139,368</u>	<u>(17,508)</u>
<u>Investing Activities</u>		
Purchase of property and equipment	(41,715)	(73,850)
Net cash used by investing activities	<u>(41,715)</u>	<u>(73,850)</u>
<u>Financing Activities</u>		
Principal payments under capital lease obligation	(14,411)	(11,158)
Net cash used by financing activities	<u>(14,411)</u>	<u>(11,158)</u>
Net increase (decrease) in cash	83,242	(102,516)
Cash, beginning of year	<u>68,293</u>	<u>170,809</u>
Cash, end of year	<u>\$ 151,535</u>	<u>68,293</u>
Supplemental disclosures:		
Cash payments for interest expense	\$ 762	3,887

See accompanying notes to financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

General

Neighbors' Educational Opportunities, Inc. (the "Corporation") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The Corporation operates a public alternative charter high school established under Indiana Code 20-24 and sponsored by Ball State University that commenced operations with the 2012-13 academic year. The Corporation also operates a comprehensive adult education program and an official testing site for the State of Indiana's High School Equivalency diploma (formerly referred to as GED).

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 Corporation 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 Corporation's revenue is the product of cost reimbursement grants. Accordingly, the Corporation 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 Corporation 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 Corporation would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2015 and 2014, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the Corporation 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 Corporation has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ending after 2011 are open to audit for both federal and state purposes.

Subsequent Events

The Corporation evaluated subsequent events through February 11, 2016, 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.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(2) Leases

The Corporation leased computer equipment under a capital lease. The lease provided that the Corporation obtains ownership of the equipment at the end of the lease term. The lease was paid in full during fiscal year 2015.

The Corporation leases its educational facility from Portage Township Schools on an annual basis for \$1 per year plus monthly payments of \$8,888 to cover utilities, maintenance and insurance. The Corporation does not report a like kind contribution for donated facilities as the lease fair value is unknown. Portage Township Schools have provided notice to the Corporation that it intends to allow the lease arrangement to continue until December 31, 2016.

The Corporation also leases equipment under an operating lease agreement. The equipment lease matures in December 2018 and provides for monthly payments of \$835.

Expense under these operating leases for the years ended June 30, 2015 and 2014 was \$116,802 and \$114,243, 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, 2015 follows:

<u>Year Ending June 30:</u>	
2016	\$116,677
2017	10,020
2018	10,020
2019	5,010

(3) Retirement Plan

The Corporation maintains a SIMPLE IRA retirement plan with Oppenheimer Funds for the benefit of its employees. Substantially all full-time employees are eligible to participate. Under the plan, the Corporation matches up to 3% of each participant's compensation for the plan year. Retirement plan expense for the years ended June 30, 2015 and 2014 was \$15,905 and \$7,156, respectively.

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 Corporation 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 \$28,796 and \$29,866 for the years ended June 30, 2015 and 2014, respectively. The charter will remain in effect until June 30, 2017 and is renewable thereafter by mutual consent.

(5) Risks and Uncertainties

The Corporation 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 Corporation. Additionally, the Corporation is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the Corporation.

Financial instruments that potentially subject the Corporation 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, 2015 and 2014:

	<u>2015</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages	\$ 767,599	349,800
Employee benefits.....	132,401	60,336
Staff development	9,389	620
Authorizer oversight fees	-	28,796
Classroom supplies	23,745	-
Content.....	22,719	-
Occupancy	106,803	-
Contracted IT services	43,613	-
Office expense	29,048	6,694
Professional services.....	76,997	38,890
Travel	6,388	3,629
Equipment.....	21,035	-
Interest	-	762
Insurance	-	4,475
Depreciation.....	22,577	-
Other	<u>30,007</u>	<u>1,720</u>
	<u>\$ 1,292,321</u>	<u>495,722</u>

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

Notes to Financial Statements

(6) Functional Expense Reporting, Continued

	2014	
	<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.

Other Reports

Year Ended June 30, 2015

The report presented herein was prepared in addition to another official report prepared for the Corporation 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*.