



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B47383

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December 28, 2016

Charter School Board
Neighbors' New Vista High School
5201 U.S. 6
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, 2015 to June 30, 2016. 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' New Vista High School, as of June 30, 2016, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

Together with Independent Auditors' Report

For the Years Ended June 30, 2016 and 2015



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Independent Auditors' 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, 2016 and 2015, and 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. 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 Neighbors' Educational Opportunities, Inc. as of June 30, 2016 and 2015, 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.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, looped initial "D".

Indianapolis, Indiana
December 20, 2016

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 74,655	\$ 151,535
Grants receivable	88,799	134,971
Other receivables	4,007	10,412
Prepaid expenses	<u>8,319</u>	<u>1,827</u>
<i>Total current assets</i>	<u>175,780</u>	<u>298,745</u>
PROPERTY AND EQUIPMENT		
Land	835,000	-
Building	900,683	-
Construction in progress	1,117,323	-
Furniture and equipment	218,383	115,565
Less: accumulated depreciation	<u>(68,692)</u>	<u>(37,541)</u>
<i>Property and equipment, net</i>	<u>3,002,697</u>	<u>78,024</u>
OTHER ASSETS		
Security deposit	11,910	-
Cash restricted for construction	<u>2,312,735</u>	<u>-</u>
<i>Total other assets</i>	<u>2,324,645</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 5,503,122</u>	<u>\$ 376,769</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 73,026	\$ -
Accounts payable and accrued expenses	<u>167,667</u>	<u>99,647</u>
<i>Total current liabilities</i>	240,693	99,647
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>4,579,629</u>	<u>-</u>
<i>Total liabilities</i>	4,820,322	99,647
NET ASSETS, UNRESTRICTED	<u>682,800</u>	<u>277,122</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,503,122</u>	<u>\$ 376,769</u>

See independent auditors' report and accompanying notes to the financial statements

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
State education support	\$ 1,306,464	\$ 1,288,825
Grant revenue	570,036	630,682
Student fees	36,138	38,640
Contributions:		
Land donation	435,000	-
Other contributions	15,431	10,691
Other income	4,112	4,095
	<u>2,367,181</u>	<u>1,972,933</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	1,280,341	1,292,321
Management and general	681,162	495,722
	<u>1,961,503</u>	<u>1,788,043</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	405,678	184,890
NET ASSETS, BEGINNING OF YEAR	<u>277,122</u>	<u>92,232</u>
NET ASSETS, END OF YEAR	<u>\$ 682,800</u>	<u>\$ 277,122</u>

See independent auditors' report and accompanying notes to the financial statements

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2016 and 2015

	2016			2015		
FUNCTIONAL EXPENSES	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 759,463	\$ 485,079	\$ 1,244,542	\$ 767,599	\$ 349,800	\$ 1,117,399
Employee benefits	135,243	86,381	221,624	132,401	60,336	192,737
Staff development	6,999	2,100	9,099	9,389	620	10,009
Authorizer oversight fees	-	28,813	28,813	-	28,796	28,796
Content	18,952	-	18,952	22,719	-	22,719
Food costs	49,002	-	49,002	27,668	-	27,668
Equipment	21,346	-	21,346	21,035	-	21,035
Classroom and office supplies	21,685	20,239	41,924	52,793	6,694	59,487
Professional services	46,065	29,044	75,109	76,997	38,890	115,887
Occupancy	138,528	-	138,528	106,803	-	106,803
Contracted IT services	39,507	-	39,507	43,613	-	43,613
Travel	9,959	6,936	16,895	6,388	3,629	10,017
Insurance	-	9,449	9,449	-	4,475	4,475
Advertising	-	6,735	6,735	-	-	-
Depreciation	31,151	-	31,151	22,577	-	22,577
Interest	-	3,161	3,161	-	762	762
Other	2,441	3,225	5,666	2,339	1,720	4,059
	\$ 1,280,341	\$ 681,162	\$ 1,961,503	\$ 1,292,321	\$ 495,722	\$ 1,788,043
<i>Total functional expenses</i>	\$ 1,280,341	\$ 681,162	\$ 1,961,503	\$ 1,292,321	\$ 495,722	\$ 1,788,043

See independent auditors' report and accompanying notes to the financial statements

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 405,678	\$ 184,890
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,151	22,577
Land donation	(435,000)	-
Change in certain assets and liabilities:		
Grants receivable	46,172	(58,490)
Other receivables	6,405	(10,232)
Prepaid expenses	(6,492)	12,772
Security deposit	(11,910)	-
Accounts payable and accrued expenses	<u>68,020</u>	<u>(12,149)</u>
 <i>Net cash provided by operating activities</i>	 <u>104,024</u>	 <u>139,368</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(2,520,824)	(41,715)
Change in cash restricted for construction	<u>(2,312,735)</u>	<u>-</u>
 <i>Net cash used in investing activities</i>	 <u>(4,833,559)</u>	 <u>(41,715)</u>
FINANCING ACTIVITIES		
Proceeds from notes payable	4,652,655	-
Principal payments of capital lease obligation	<u>-</u>	<u>(14,411)</u>
 <i>Net cash provided by (used in) financing activities</i>	 <u>4,652,655</u>	 <u>(14,411)</u>
 NET CHANGE IN CASH	 (76,880)	 83,242
 CASH, BEGINNING OF YEAR	 <u>151,535</u>	 <u>68,293</u>
 CASH, END OF YEAR	 <u>\$ 74,655</u>	 <u>\$ 151,535</u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 3,161	\$ 762

See independent auditors' report and accompanying notes to the financial statements

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 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 is sponsored by Ball State University. Operations commenced with the 2012-2013 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.

Property and Equipment – Purchases of 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 using the straight-line method. The estimated useful lives generally are as follows:

Building	37.5 years
Furniture and equipment	3 to 7 years

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, 2016 and 2015, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income, Continued – 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 2012 are open to audit for both federal and state purposes.

Reclassifications – Certain amounts in the statement of functional expenses for the year ended June 30, 2015 have been reclassified to conform to the groupings in the 2016 statement of functional expenses. Total expenses for 2015 have not changed.

Subsequent Events – The Corporation evaluated subsequent events through December 20, 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.

NOTE 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 leased 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. The lease was terminated at the end of the 2015/2016 school year. The Corporation moved to its new facilities during July 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, 2016 and 2015 was \$117,508 and \$116,802, respectively.

Minimum future rental payments under non-cancelable operating leases with a remaining term in excess of one year as of June 30, 2016 are as follows for the years ending June 30:

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

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following at June 30, 2016:

Note payable to Indiana State Board of Education, payable \$57,633 semi-annually (January 1 and July 1) plus interest at 1.00% per annum, through July 2026. First payment due January 1, 2017. Loan executed April 2016.	\$ 1,152,655
Note payable to 1 st Source Bank, payable in monthly installments of interest only at 4.25% per annum until May 2017, beginning June 2017 monthly installments of \$27,789 including interest at 4.25% per annum, with a balloon payment due May 2022. Loan executed on May 2016.	<u>3,500,000</u> 4,652,655
Less: current portion	<u>(73,026)</u>
Long-term portion	\$ <u><u>4,579,629</u></u>

The note payable to the Indiana State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the Corporation's future tuition support payments on the Corporation's basic grant.

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

2017	\$ 73,026
2018	304,291
2019	312,483
2020	321,030
2021	329,947
Thereafter	<u>3,311,878</u>
	\$ <u><u>4,652,655</u></u>

NOTE 4 - 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, 2016 and 2015 was \$18,161 and \$15,904, respectively.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 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 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 \$28,813 and \$28,796 for the years ended June 30, 2016 and 2015, respectively. The charter will remain in effect until June 30, 2017 and is renewable thereafter by mutual consent.

In 2016, the Corporation purchased a building and committed to a construction project on the building with a total cost of \$3,500,000. As of June 30, 2016, \$1,117,323 in costs on the project had been incurred. The entire project was prefunded, with all the necessary cash held in an escrow account at 1st Source Bank and released directly to the project's contractor upon meeting agreed-upon terms.

NOTE 6 - 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.

NOTE 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 services and management and general.