



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B49548

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February 7, 2018

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

We have reviewed the report prepared by Neighbors' Educational Opportunities, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Neighbors' Educational Opportunities, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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

Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



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Donovan CPAs

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, 2017 and 2016, 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, 2017 and 2016, 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 22, 2017

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.**STATEMENTS OF FINANCIAL POSITION****June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 38,975	\$ 74,655
Grants receivable	159,058	88,799
Other receivables	13,324	4,007
Prepaid expenses	12,474	8,319
<i>Total current assets</i>	<u>223,831</u>	<u>175,780</u>
PROPERTY AND EQUIPMENT		
Land	835,000	835,000
Building and improvements	3,957,399	900,683
Furniture and equipment	442,499	218,383
Construction in progress	-	1,117,323
Less: accumulated depreciation	<u>(247,226)</u>	<u>(68,692)</u>
<i>Property and equipment, net</i>	<u>4,987,672</u>	<u>3,002,697</u>
OTHER ASSETS		
Security deposit	11,910	11,910
Cash restricted for construction	<u>-</u>	<u>2,312,735</u>
<i>Total other assets</i>	<u>11,910</u>	<u>2,324,645</u>
TOTAL ASSETS	<u><u>\$ 5,223,413</u></u>	<u><u>\$ 5,503,122</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 305,491	\$ 73,026
Accounts payable and accrued expenses	<u>173,613</u>	<u>167,667</u>
<i>Total current liabilities</i>	479,104	240,693
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>4,246,451</u>	<u>4,579,629</u>
<i>Total liabilities</i>	4,725,555	4,820,322
NET ASSETS, UNRESTRICTED	<u>497,858</u>	<u>682,800</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,223,413</u></u>	<u><u>\$ 5,503,122</u></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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 1,621,778	\$ 1,306,464
Grant revenue	734,643	570,036
Student fees	35,157	36,138
Contributions:		
Land donation	-	435,000
Other contributions	57,754	15,431
Other income	50,547	4,112
<i>Total revenue and support</i>	<u>2,499,879</u>	<u>2,367,181</u>
 EXPENSES		
Program services	1,822,607	1,280,341
Management and general	862,214	681,162
<i>Total expenses</i>	<u>2,684,821</u>	<u>1,961,503</u>
 CHANGE IN NET ASSETS	 (184,942)	 405,678
 NET ASSETS, BEGINNING OF YEAR	 <u>682,800</u>	 <u>277,122</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 497,858</u></u>	 <u><u>\$ 682,800</u></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, 2017 and 2016

	2017			2016		
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	\$ 980,933	\$ 489,557	\$ 1,470,490	\$ 759,463	\$ 485,079	\$ 1,244,542
Employee benefits	180,884	90,275	271,159	135,243	86,381	221,624
Staff development	5,559	2,213	7,772	3,329	2,100	5,429
Authorizer oversight fees	-	37,397	37,397	-	28,813	28,813
Content	33,850	-	33,850	18,952	-	18,952
Food costs	49,394	-	49,394	49,002	-	49,002
Equipment	28,938	-	28,938	21,346	-	21,346
Classroom and office supplies	52,862	21,764	74,626	21,685	20,239	41,924
Professional services	34,609	32,799	67,408	49,735	29,044	78,779
Occupancy	180,372	-	180,372	138,528	-	138,528
Contracted IT services	86,087	-	86,087	39,507	-	39,507
Travel	8,191	8,441	16,632	9,959	6,936	16,895
Insurance	-	18,817	18,817	-	9,449	9,449
Advertising	-	15,755	15,755	-	6,735	6,735
Depreciation	178,534	-	178,534	31,151	-	31,151
Interest	-	141,537	141,537	-	3,161	3,161
Other	2,394	3,659	6,053	2,441	3,225	5,666
	\$ 1,822,607	\$ 862,214	\$ 2,684,821	\$ 1,280,341	\$ 681,162	\$ 1,961,503
<i>Total functional expenses</i>	\$ 1,822,607	\$ 862,214	\$ 2,684,821	\$ 1,280,341	\$ 681,162	\$ 1,961,503

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (184,942)	\$ 405,678
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	178,534	31,151
Land donation	-	(435,000)
Change in certain assets and liabilities:		
Grants receivable	(70,259)	46,172
Other receivables	(9,317)	6,405
Prepaid expenses	(4,155)	(6,492)
Security deposit	-	(11,910)
Accounts payable and accrued expenses	5,946	68,020
<i>Net cash provided by (used in) operating activities</i>	<u>(84,193)</u>	<u>104,024</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(2,163,509)	(2,520,824)
Change in cash restricted for construction	<u>2,312,735</u>	<u>(2,312,735)</u>
<i>Net cash provided by (used in) investing activities</i>	<u>149,226</u>	<u>(4,833,559)</u>
FINANCING ACTIVITIES		
Proceeds from notes payable	-	4,652,655
Principal payments of notes payable	<u>(100,713)</u>	<u>-</u>
<i>Net cash provided by (used in) financing activities</i>	<u>(100,713)</u>	<u>4,652,655</u>
NET CHANGE IN CASH	(35,680)	(76,880)
CASH, BEGINNING OF YEAR	<u>74,655</u>	<u>151,535</u>
CASH, END OF YEAR	<u>\$ 38,975</u>	<u>\$ 74,655</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 141,537	\$ -

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, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016

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 2013 are open to audit for both federal and state purposes.

Subsequent Events – The Corporation evaluated subsequent events through December 22, 2017, 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 - GOING CONCERN CONSIDERATION

Enrollment for the 2017-2018 school year declined significantly. In the fall of 2017, enrollment was 195 students compared to an average enrollment of 245 for the 2016-2017 school year. The School will see a sizable drop in state education support and other grant revenue (in excess of \$300,000), while experiencing a large increase in debt service obligations (an additional approximate \$200,000).

Management has examined its expense structure and made adjustments as necessary to reduce and contain expenses. The Indiana State Board of Education has agreed to defer the January 1, 2018 loan payment and the School is working with 1st Source Bank for concessions on its note payable. Management has been in communication with the Office of Charter Schools at Ball State University for their assistance during this time. The School is also actively marketing 2.6 acres of unused land to sell and seeking other sources of funding. Finally, management has established a dedicated recruitment plan to increase enrollment for the 2018-2019 school year.

We believe that management's intentional and urgent actions and success in debt restructuring will allow the School to continue to operate at least twelve months beyond the date of this report.

NOTE 3 - LEASES

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.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 3 - LEASES, Continued

Expense under these operating leases for the years ended June 30, 2017 and 2016 was \$37,059 and \$117,508, respectively.

Minimum future rental payments under non-cancelable operating leases with a remaining term in excess of one year as of June 30, 2017 are as follows for the years ending June 30:

2018	\$	10,020
2019		5,010

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
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.	\$ 1,095,022	\$ 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.	<u>3,456,920</u>	<u>3,500,000</u>
	4,551,942	4,652,655
Less: current portion	<u>(305,491)</u>	<u>(73,026)</u>
Long-term portion	\$ <u>4,246,451</u>	\$ <u>4,579,629</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:

2018	\$	305,492
2019		313,736
2020		322,337
2021		331,311
2022		2,760,374
Thereafter		<u>518,692</u>
	\$	<u>4,551,942</u>

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE 5 - 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, 2017 and 2016 was \$17,302 and \$18,161, respectively.

NOTE 6 - 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 \$37,397 and \$28,813 for the years ended June 30, 2017 and 2016, respectively. The charter will remain in effect until June 30, 2022 and is renewable thereafter by mutual consent.

NOTE 7 - 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 8 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities and change in net assets. Accordingly, certain expenses have been allocated between program services and management and general.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
OTHER REPORT
For the Year Ended June 30, 2017

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.