



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B52530

STATE BOARD OF ACCOUNTS
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April 5, 2019


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

We have reviewed the audit report of Neighbors' Educational Opportunities, Inc. which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2017 to June 30, 2018. 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, 2018 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 the audit report in accordance with 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, CPA
State Examiner

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets.....	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 10
 OTHER REPORT	 11



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, 2018 and 2017, 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, 2018 and 2017, 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
January 21, 2019

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 7,399	\$ 38,975
Grants receivable	41,398	159,058
Other receivables	15,904	13,324
Prepaid expenses	<u>4,120</u>	<u>12,474</u>
<i>Total current assets</i>	<u>68,821</u>	<u>223,831</u>
PROPERTY AND EQUIPMENT		
Land	835,000	835,000
Building and improvements	3,957,399	3,957,399
Furniture and equipment	442,499	442,499
Less: accumulated depreciation	<u>(438,605)</u>	<u>(247,226)</u>
<i>Property and equipment, net</i>	<u>4,796,293</u>	<u>4,987,672</u>
OTHER ASSETS		
Security deposit	<u>11,910</u>	<u>11,910</u>
TOTAL ASSETS	<u>\$ 4,877,024</u>	<u>\$ 5,223,413</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 251,694	\$ 305,491
Accounts payable and accrued expenses	232,705	173,613
Short-term note payable	<u>8,725</u>	<u>-</u>
<i>Total current liabilities</i>	493,124	479,104
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>4,154,112</u>	<u>4,246,451</u>
<i>Total liabilities</i>	4,647,236	4,725,555
NET ASSETS, UNRESTRICTED	<u>229,788</u>	<u>497,858</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,877,024</u>	<u>\$ 5,223,413</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT		
State education support	\$ 1,367,068	\$ 1,621,778
Grant revenue	805,645	734,643
Student fees	40,089	35,157
Rental income	34,520	16,569
Contributions	24,468	57,754
Interest income	1,136	-
Other income	7,640	34,078
	<u>2,280,566</u>	<u>2,499,979</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	1,858,168	1,822,714
Management and general	690,468	862,207
	<u>2,548,636</u>	<u>2,684,921</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	(268,070)	(184,942)
NET ASSETS, BEGINNING OF YEAR	<u>497,858</u>	<u>682,800</u>
NET ASSETS, END OF YEAR	<u>\$ 229,788</u>	<u>\$ 497,858</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, 2018 and 2017

	2018			2017		
	Program Services	Management and General	Total	Program Services	Management and General	Total
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 1,042,331	\$ 381,209	\$ 1,423,540	\$ 981,033	\$ 489,557	\$ 1,470,590
Employee benefits	180,140	68,810	248,950	180,891	90,268	271,159
Staff development	8,508	-	8,508	5,559	2,213	7,772
Authorizer oversight fees	-	25,706	25,706	-	37,397	37,397
Educational content	29,462	-	29,462	33,850	-	33,850
Food costs	42,988	-	42,988	49,394	-	49,394
Equipment	12,559	-	12,559	28,938	-	28,938
Classroom and office supplies	50,673	2,133	52,806	52,862	9,387	62,249
Professional services	77,405	12,772	90,177	34,609	32,799	67,408
Occupancy	145,643	9,821	155,464	180,372	12,377	192,749
Contracted IT services	63,225	-	63,225	86,087	-	86,087
Travel	2,968	3,375	6,343	8,191	8,441	16,632
Insurance	-	20,700	20,700	-	18,817	18,817
Advertising	-	10,032	10,032	-	15,755	15,755
Depreciation	191,379	-	191,379	178,534	-	178,534
Interest	-	147,852	147,852	-	141,537	141,537
Other	10,887	8,058	18,945	2,394	3,659	6,053
<i>Total functional expenses</i>	<u>\$ 1,858,168</u>	<u>\$ 690,468</u>	<u>\$ 2,548,636</u>	<u>\$ 1,822,714</u>	<u>\$ 862,207</u>	<u>\$ 2,684,921</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (268,070)	\$ (184,942)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	191,379	178,534
Change in certain assets and liabilities:		
Grants receivable	117,660	(70,259)
Other receivables	(2,580)	(9,317)
Prepaid expenses	8,354	(4,155)
Accounts payable and accrued expenses	<u>59,092</u>	<u>5,946</u>
<i>Net cash provided by (used in) operating activities</i>	<u>105,835</u>	<u>(84,193)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	-	(2,163,509)
Change in cash restricted for construction	<u>-</u>	<u>2,312,735</u>
<i>Net cash provided by investing activities</i>	<u>-</u>	<u>149,226</u>
FINANCING ACTIVITIES		
Proceeds from short-term notes payable	50,000	-
Repayments of short-term notes payable	(41,275)	-
Principal payments of notes payable	<u>(146,136)</u>	<u>(100,713)</u>
<i>Net cash used in financing activities</i>	<u>(137,411)</u>	<u>(100,713)</u>
NET CHANGE IN CASH	(31,576)	(35,680)
CASH, BEGINNING OF YEAR	<u>38,975</u>	<u>74,655</u>
CASH, END OF YEAR	<u>\$ 7,399</u>	<u>\$ 38,975</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 147,852	\$ 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, 2018 and 2017

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 that served approximately 195 students during 2017-2018. The Corporation also operates a comprehensive adult education program and an official testing site for the State of Indiana's High School Equivalency diploma.

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 and improvements	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, 2018 and 2017, 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, 2018 and 2017

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 2014 are open to audit for both federal and state purposes.

Subsequent Events – The Corporation evaluated subsequent events through January 21, 2019, 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 from the 2016-2017 school year. The decline in revenue caused by the enrollment decrease resulted in a negative change in net assets of approximately \$268,000 for the year ended June 30, 2018. In addition, as of June 30, 2018 the School has a negative working capital of approximately \$425,000.

Enrollment for the 2018-2019 school year increased 35 students to a total of 230 students, which generates additional state funding of approximately \$215,000.

Management believes the increased enrollment along with their intentional and urgent actions and success in cost and cash outflow containment will allow the Corporation to continue to operate at least twelve months beyond the date of this report.

NOTE 3 - LEASES

The Corporation leases equipment under an operating lease agreement. The equipment lease matures in December 2018 and provides for monthly payments of \$835. Payments on the lease for the year ending June 30, 2019 total \$5,010.

Expense under these operating leases was \$18,930 and \$37,059 for the years ended June 30, 2018 and 2017, respectively.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</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 2027.	\$ 1,037,389	\$ 1,095,022
Note payable to 1 st Source Bank, payable in monthly installments \$27,789 including interest at 4.25% per annum, with a balloon payment due May 2022, secured by mortgage on Corporation facilities	<u>3,368,417</u>	<u>3,456,920</u>
	4,405,806	4,551,942
Less: current portion	<u>(251,694)</u>	<u>(305,491)</u>
Long-term portion	\$ <u>4,154,112</u>	\$ <u>4,246,451</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:

2019	\$ 251,694
2020	317,737
2021	326,511
2022	2,875,903
2023	115,265
Thereafter	<u>518,696</u>
	\$ <u>4,405,806</u>

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 was \$17,754 and \$17,302 for the years ended June 30, 2018 and 2017, respectively.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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 \$25,706 and \$37,397 for the years ended June 30, 2018 and 2017, 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 statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program services and management and general expenses.

NEIGHBORS' EDUCATIONAL OPPORTUNITIES, INC.
OTHER REPORT
For the Year Ended June 30, 2018

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.