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March 18, 2014

Charter School Board
Southeast Neighborhood School of Excellence, Inc.
1601 S. Barth Avenue
Indianapolis, IN 46203

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Sikich, LLP, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. 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 Southeast Neighborhood School of Excellence, Inc., as of June 30, 2013, 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 are filed in our office as a matter of public record.

State Board of Accounts



**Southeast Neighborhood School
of Excellence, Inc.**

Financial Statements
With Supplemental Information

For the Years Ended
June 30, 2013 and 2012



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Southeast Neighborhood School of Excellence, Inc.
Indianapolis, IN:

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Neighborhood School of Excellence, Inc. (an Indiana non-profit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. 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 Southeast Neighborhood School of Excellence, Inc. as of June 30, 2013 and 2012, 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013, on our consideration of Southeast Neighborhood School of Excellence, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southeast Neighborhood School of Excellence, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Sikich, LLP". The signature is written in a cursive, flowing style.

Sikich LLP

Indianapolis, Indiana
November 25, 2013

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash	\$ 284,476	\$ 107,513
Grants receivable	56,013	30,521
State support receivable, net of allowance of \$1,243,866 and \$0, respectively	-	996,189
Prepaid expenses	<u>7,999</u>	<u>10,533</u>
 Total Current Assets	 <u>348,488</u>	 <u>1,144,756</u>
 PROPERTY AND EQUIPMENT:		
Furniture and equipment	286,183	264,108
Computer hardware	84,252	47,098
Computer software	43,209	36,795
Leasehold improvements	52,593	48,328
Books and educational materials	181,766	169,728
Less: accumulated depreciation	<u>(441,718)</u>	<u>(408,072)</u>
 Total Property and Equipment, net	 <u>206,285</u>	 <u>157,985</u>
	 <u>\$ 554,773</u>	 <u>\$ 1,302,741</u>

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
STATEMENTS OF FINANCIAL POSITION
 (continued)
 JUNE 30, 2013 AND 2012

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 51,059	\$ 86,640
Current portion of note payable	-	64,199
Accrued payroll	<u>72,336</u>	<u>47,514</u>
Total Current Liabilities	<u>123,395</u>	<u>198,353</u>
 LONG TERM LIABILITIES:		
Common School Loan	-	743,902
Note payable, net of current portion	-	148,800
Accrued interest - Common School Loans	<u>-</u>	<u>94,695</u>
Total Long Term Liabilities	<u>-</u>	<u>987,397</u>
Total Liabilities	<u>123,395</u>	<u>1,185,750</u>
 NET ASSETS:		
Unrestricted	427,293	114,552
Temporary restricted	<u>4,085</u>	<u>2,439</u>
Total Net Assets	<u>431,378</u>	<u>116,991</u>
	<u>\$ 554,773</u>	<u>\$ 1,302,741</u>

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:			
School lunch program	\$ 7,592	\$ -	\$ 7,592
In-kind contributions	28,169	-	28,169
Student fees	4,038	-	4,038
Contributions and donations	51,227	-	51,227
Grant revenue	905,918	3,764	909,682
State Support	2,487,731	-	2,487,731
Other revenue	4,278	-	4,278
Net assets released from restrictions by satisfaction of temporary restrictions	<u>2,118</u>	<u>(2,118)</u>	<u>-</u>
 Total Revenues and Support	 <u>3,491,071</u>	 <u>1,646</u>	 <u>3,492,717</u>
 PROGRAM AND SUPPORTING SERVICE EXPENSES:			
Program services	2,580,362	-	2,580,362
Supporting services:			
General and administrative	372,389	-	372,389
Fundraising	<u>50,697</u>	<u>-</u>	<u>50,697</u>
 Total Expenses	 <u>3,003,448</u>	 <u>-</u>	 <u>3,003,448</u>
 NON-OPERATING REVENUE:			
Loss due to changes in legislative funding (Note 3)	<u>(174,882)</u>	<u>-</u>	<u>(174,882)</u>
 CHANGE IN NET ASSETS	 312,741	 1,646	 314,387
 NET ASSETS, beginning of year	 <u>114,552</u>	 <u>2,439</u>	 <u>116,991</u>
 NET ASSETS, end of year	 <u>\$ 427,293</u>	 <u>\$ 4,085</u>	 <u>\$ 431,378</u>

See accompanying notes to the financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT:			
School lunch program	\$ 6,320	\$ -	\$ 6,320
In-kind contributions	40,000	-	40,000
Student fees	5,122	-	5,122
Contributions and donations	38,487	-	38,487
Grant revenue	653,570	2,439	656,009
State Support	1,992,475	-	1,992,475
Other revenue	9,835	-	9,835
Net assets released from restrictions by satisfaction of temporary restrictions	<u>8,837</u>	<u>(8,837)</u>	<u>-</u>
 Total Revenues and Support	 <u>2,754,646</u>	 <u>(6,398)</u>	 <u>2,748,248</u>
PROGRAM AND SUPPORTING SERVICE EXPENSES:			
Program services	2,472,110	-	2,472,110
Supporting services:			
General and administrative	344,459	-	344,459
Fundraising	<u>3,928</u>	<u>-</u>	<u>3,928</u>
 Total Expenses	 <u>2,820,497</u>	 <u>-</u>	 <u>2,820,497</u>
 CHANGE IN NET ASSETS	 <u>(65,851)</u>	 <u>(6,398)</u>	 <u>(72,249)</u>
NET ASSETS, beginning of year			
As previously reported	286,780	8,837	295,617
 Prior period adjustment for understatement of accrued interest from Common School Loans, accrued expenses and accounts payable.	 <u>(106,377)</u>	 <u>-</u>	 <u>(106,377)</u>
 NET ASSETS, beginning of year As restated	 <u>180,403</u>	 <u>8,837</u>	 <u>189,240</u>
 NET ASSETS, end of year	 <u>\$ 114,552</u>	 <u>\$ 2,439</u>	 <u>\$ 116,991</u>

See accompanying notes to the financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 314,387	\$ (72,249)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	33,646	39,242
Net loss due to changes in legislation	174,882	-
(Increase) decrease in:		
Grants receivable	(25,492)	(11,377)
State support	(247,677)	-
Prepaid expense	2,534	31,095
Increase (decrease) in:		
Accounts payable	(35,581)	24,875
Accrued interest	34,912	94,695
Accrued expenses	<u>24,822</u>	<u>47,514</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>276,433</u>	<u>153,795</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(81,946)</u>	<u>(44,029)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(81,946)</u>	<u>(44,029)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt borrowings	245,475	-
Long-term debt repayments	<u>(262,999)</u>	<u>(67,595)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(17,524)</u>	<u>(67,595)</u>
NET INCREASE IN CASH	176,963	42,171
CASH AND CASH EQUIVALENTS - beginning of year	<u>107,513</u>	<u>65,342</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 284,476</u>	<u>\$ 107,513</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 39,240</u>	<u>\$ 45,274</u>

See accompanying notes to the financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Southeast Neighborhood School of Excellence, Inc. (the "School") was incorporated March 21, 2003, under the laws of the State of Indiana and commenced operations in September 2002. The School is a community driven elementary school that nurtures academic excellence, social development, and civic responsibility in every individual. The School seeks to build a strong foundation for learning and living by creating in its students a thirst for knowledge and an enthusiasm for learning.

Basis of Accounting - The financial statements of the School have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses when the obligation is incurred.

Basis of Presentation - As required by Financial Statement Presentation Disclosure topic of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net Assets - The financial statements report amounts separately by class of net assets:

Unrestricted net assets - Unrestricted amounts are those currently available for use in the School's activities.

Temporarily restricted net assets - Temporarily restricted expendable amounts are those which are restricted by donors for specific purposes. As of June 30, 2013 and 2012, the School had \$4,085 and \$2,439, respectively, of temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations require that they be maintained permanently by the School. Generally, the donors of these assets permit the School to use all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2013 and 2012, the School had no permanently restricted net assets.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the School considers all investments purchased with a maturity of three months or less to be cash equivalents.

In the normal course of business, the School may maintain cash held at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) insured limits.

Grants Receivable - Grants receivable represent the uncollected portion of funds from grants awarded to the School.

Grant receivables are reported net of an allowance for doubtful accounts. There were no allowances, as of June 30, 2013 and 2012, based on management's estimate of the amount of receivables that will actually be collected. Grant receivables are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts.

State Support Receivable - Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law.

Tuition support is payable in equal monthly installments in the calendar year following the start of the academic school year (i.e. 6 months in arrears). As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, tuition support will be paid currently in monthly installments that coincide with the School's fiscal year.

State support receivables are reported net of an allowance for doubtful accounts. As of June 30, 2013 and 2012, the allowance for doubtful accounts was \$1,243,866 and \$0, respectively. This allowance is based upon management's estimate using the expected amount of receivables that will be collected due to the change in legislative funding (See Note 3).

Property and Equipment - Property and equipment are recorded at cost or, if contributed, at the estimated fair value at the date of the gift. The School capitalizes additions of property and equipment in excess of \$1,000 cost or fair value, if contributed. Depreciation of property and equipment is computed using the straight-line method and based upon the estimated useful lives of the assets ranging from 3 to 40 years. Expenditures for property and equipment and for renewals or improvements which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense when incurred. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

Depreciation expense was \$33,646 and \$39,242 for the year ended June 30, 2013 and 2012, respectively.

Impairment of long-lived assets - The School evaluates long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write-down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. Management has determined that no impairment existed for the year ended June 30, 2013 and 2012.

Contributed Materials and Services - Contributed services are recognized as contributions in accordance with Contributions Disclosure Topic of FASB ASC, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

The School received \$28,169 and \$40,000 of in-kind contributions during the year ended June 30, 2013 and 2012. At June 30, 2013 and 2012, these amounts consist of nursing services provided at no charge. Volunteers provide program services throughout the year that are not recognized as contributions in the financial statements since they do not meet the recognition criteria under Contributions Disclosure Topic of FASB ASC. These services include volunteering at events, picking up donations, and various clerical work.

Revenue Recognition - Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in equal monthly installments in January through

December following the start of the academic school year. Revenue is recognized in the year in which the educational services are rendered. See Note 3 regarding legislative changes affecting revenue recognition.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under the grants in the amounts of costs and expenses at the time they are incurred.

Functional Expense Allocation - The costs of providing the various programs and other activities have been summarized in the statement of activities. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions. The allocation is based on a formula contained within the grant documents.

Costs are allocated to the programs and supporting services. Management periodically evaluates its allocation method and revises it when necessary. Management and general expenses include those expenses that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the School.

Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could vary from the estimates that were used.

Advertising - The School expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2013 and 2012 was \$1,307 and \$7,210, respectively.

Income Taxes - The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The School is not considered to be a private foundation. Accordingly, no provision for income taxes has been reflected in the School's financial statements.

The School has adopted the provisions of Uncertain Tax Positions Disclosure Topics of FASB ASC, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. In the normal course of business, the School is subject to examination by taxing authorities. The School's tax returns for years subsequent to fiscal 2009 are open, by statute, for review by authorities. However, at present there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the School currently files or has filed.

Concentration of Credit Risk - Financial instruments that potentially subject the School to concentrations of credit risk consist principally of temporary cash investments and grants receivable.

The School places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. There were no funds in excess of FDIC insured limits at June 30, 2013 and 2012.

Concentrations of credit risk with respect to grants receivable are limited due to the School's ability to accomplish the terms of the grants. Credit losses, if any, have been provided in the financial statements and have been within management's expectations.

Operating Funds from the Indiana Department of Education amounted to 57% and 72% of the School's support and revenue in June 30, 2013 and 2012, respectively. A state funding formula is used to determine the amount of revenue a charter school receives. The formula is based on the number of students enrolled in the school during the year.

Risks and Uncertainties - The School provides education instruction services to families residing in Marion 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, non-compliance in regards to federal and state standards and regulations could result in reduction of funding or repayment of disallowed costs.

Reclassifications - Certain amounts in the prior-year financial statements have been reclassified in order to be comparable with the current year presentation.

NOTE 2 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Education - The School offers a solid, research-based curriculum to elementary students. Teachers actively select instructional programs and strategies that support the national language arts and mathematics Core Curriculum, and Indiana State Standards. Special Area classes include art, Skill Builders, music, physical education, and technology education. Students with special needs attend pull-out class sessions to support their Individual Education Plans.

NOTE 3 – LEGISLATIVE FUNDING CHANGES

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year (i.e. 6 months in arrears). As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has received forgiveness of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans	\$ 939,377
Repayment of Common School Fund accrued interest	<u>129,607</u>
	1,068,984
Allowance for doubtful accounts related to changes in legislative funding	<u>(1,243,866)</u>
Net loss due to changes in legislation	<u><u>\$ (174,882)</u></u>

NOTE 4 – GRANTS RECEIVABLE

Grants receivable for the years ended June 30, 2013 and June 30, 2012 represent amounts due from the Indiana Department of Education relating to the following sources:

	<u>2013</u>	<u>2012</u>
Title I	\$ 17,950	\$ 22,720
Title II	4,950	6,156
Nutrition	31,924	-
Special Education	-	1,645
School Technology	<u>1,189</u>	<u>-</u>
	<u><u>\$ 56,013</u></u>	<u><u>\$ 30,521</u></u>

NOTE 5 - OPERATING LEASES

The School entered into a 10 year lease with Southeast Neighborhood Development, Inc., an unrelated party, for educational facilities located at 1601 Barth Avenue, Indianapolis, Indiana. The lease, which expires in August 31, 2014, requires monthly payments ranging from \$26,931 to \$36,750. During the year ended June 30, 2013 and 2012, \$326,451 and \$362,520, respectively, was expensed for school and office rent.

On July 7, 2013, the School entered into a new five year lease agreement with Southeast Neighborhood Development, Inc. for educational facilities located at 1601 Barth Avenue, Indianapolis, Indiana. The lease, which expires on August 1, 2018, requires monthly payments ranging from \$45,003 to \$60,413.

The School also leases computer equipment from CSC Leasing Company and copiers from Toshiba Financial Services. The leases with CSC Leasing Company and Toshiba Financial Services will both expire December 2014. During the year ended June 30, 2013 and 2012, was \$44,131 and \$37,520, respectively expensed.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2013 are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 565,104
2015	555,247
2016	597,299
2017	658,544
2018 and thereafter	<u>780,260</u>
	<u>\$ 3,156,454</u>

NOTE 6 - PENSION PLAN

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. For years ended June 30, 2013 and 2012, the School contributed \$151,901 and \$125,071, respectively, for PERF and TRF.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

NOTE 7 - LONG-TERM DEBT ACTIVITY

The School had no long-term debt as of June 30, 2013. During the year, the Common School Loans were forgiven in full and the long term note held with JPMorgan Chase Bank was paid off in full.

Total interest expense during the year ended June 30, 2013 and 2012 was \$39,240 and \$45,274.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 and 2012 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
School Technology Grant	\$ 321	\$ 2,439
Medicaid Reimbursement	<u>3,764</u>	<u>-</u>
	<u>\$ 4,085</u>	<u>\$ 2,439</u>

During June 30, 2012, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2013</u>	<u>2012</u>
School Technology Grant	\$ 2,118	\$ 50
Title I	-	3,942
Education Jobs	<u>-</u>	<u>4,845</u>
	<u>\$ 2,118</u>	<u>\$ 8,837</u>

NOTE 9 - PRIOR PERIOD ADJUSTMENT

During 2012, the School discovered that interest expense for common school loans from the State of Indiana was understated by \$61,860 in the prior year. As a result, a prior period adjustment has been made to increase the accrued interest – Common School Loan account balance and decrease unrestricted net assets. The School also discovered that accounts payable and accrued expenses were understated by \$44,517 in prior years. As a result, a prior period adjustment has been made to decrease payroll and accrued expense accounts, and decrease the balance in unrestricted net assets.

NOTE 10 - SUBSEQUENT EVENT

The building that the School leases was cited during an air quality inspection by the Indiana Department of Health. In September 2013, the School entered into a loan agreement with Old National Bank for \$350,000 to install equipment to improve air quality. Under the lease (Note 5), costs to conform to the air quality standards by the building owner would have been passed on to the School as an increase in lease payments. Consequently, the School decided to pay for the costs necessary to comply directly. In September 2013, the School entered into a loan agreement with Old National Bank for \$350,000, which funds the installation of equipment necessary to comply with air quality standards.

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through November 25, 2013, the date the financial statements were available to be issued.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	<u>Program Service Expenses</u>			<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Grants</u>	<u>Academics</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 490,484	\$ 994,368	\$ 1,484,852	\$ 225,166	\$ 27,500	\$ 1,737,518
Instructional services	62,539	108,310	170,849	-	-	170,849
Information technology	3,968	12,749	16,717	23,285	-	40,002
Accounting services	-	-	-	56,211	-	56,211
Course materials/supplies	45,408	42,623	88,031	6,750	2,863	97,644
Nutritional support	198,359	-	198,359	-	12,492	210,851
Travel and entertainment	-	1,772	1,772	341	-	2,113
Vehicle/transportation expense	-	85,268	85,268	-	6,535	91,803
Rent and facilities	11,462	436,023	447,485	49,721	-	497,206
Depreciation and amortization	-	30,281	30,281	3,365	-	33,646
Interest expense	-	34,415	34,415	4,825	-	39,240
Insurance	-	22,333	22,333	2,725	-	25,058
Advertising expenses	-	-	-	-	1,307	1,307
	<u>\$ 812,220</u>	<u>\$ 1,768,142</u>	<u>\$ 2,580,362</u>	<u>\$ 372,389</u>	<u>\$ 50,697</u>	<u>\$ 3,003,448</u>

See accompanying notes to the financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

	<u>Program Service Expenses</u>			<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Grants</u>	<u>Academics</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 194,541	\$ 1,146,415	\$ 1,340,956	\$ 190,773	\$ 3,693	\$ 1,535,422
Instructional services	106,436	47,398	153,834	-	-	153,834
Information technology	5,346	11,258	16,604	11,069	-	27,673
Accounting services	-	-	-	51,871	-	51,871
Other outside services	2,285	-	2,285	7,410	-	9,695
Course materials/supplies	39,947	53,411	93,358	17,709	-	111,067
Nutritional support	188,749	-	188,749	4,591	-	193,340
Sales and marketing	-	-	-	-	40	40
Travel and entertainment	-	1,492	1,492	629	-	2,121
Vehicle/transportation expense	-	79,570	79,570	-	-	79,570
Rent and facilities	5,769	448,612	454,381	50,685	-	505,066
Field Trips	4,680	680	5,360	-	-	5,360
Depreciation and amortization	-	35,319	35,319	3,924	-	39,242
Interest expense	-	44,355	44,355	919	-	45,274
Insurance	-	29,697	29,697	3,544	-	33,241
Advertising expenses	-	7,015	7,015	-	195	7,210
Small equipment purchases	-	19,135	19,135	-	-	19,135
Miscellaneous	-	-	-	1,335	-	1,336
	<u>\$ 547,753</u>	<u>\$ 1,924,357</u>	<u>\$ 2,472,110</u>	<u>\$ 344,459</u>	<u>\$ 3,928</u>	<u>\$ 2,820,497</u>

See accompanying notes to the financial statements.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Southeast Neighborhood School of Excellence, Inc.
Indianapolis, IN:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southeast Neighborhood School of Excellence, Inc., which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southeast Neighborhood School of Excellence, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeast Neighborhood School of Excellence, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Neighborhood School of Excellence, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Neighborhood School of Excellence, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Sikich, LLP". The signature is written in a cursive, slightly slanted style.

Sikich LLP

Indianapolis, Indiana
November 25, 2013

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 2012-2013	\$ 56,155
National School Lunch Program	10.555	FY 2012-2013	153,621
Summer Food Service Program for Children	10.559	FY 2012-2013	<u>3,491</u>
Total for Child Nutrition Cluster			<u>213,267</u>
Total for U.S. Department of Agriculture			<u>213,267</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education			
ARRA-Education Technology State Grants*	84.386	FY 2012-2013	<u>6,994</u>
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	FY 2011-2013	3,375
Special Education Grants to States	84.027	FY 2013-2014	<u>51,729</u>
Total Special Education Cluster (IDEA)			<u>55,104</u>
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY 2011-2012	78,396
Title I Grants to Local Educational Agencies	84.010	FY 2012-2013	<u>260,980</u>
Total Title I, Part A Cluster			<u>339,376</u>
ARRA-Education Jobs Fund*	84.410	FY 2012-2013	<u>1,292</u>
English Language Acquisition State Grants	84.365	FY 2012-2013	<u>2,351</u>
Improving Teacher Quality State Grants	84.367	FY 2010-2012	18,968
Improving Teacher Quality State Grants	84.367	FY 2011-2013	<u>16,620</u>
Total for program			<u>35,588</u>
Total U.S. Department of Education			<u>440,705</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 653,972</u></u>

* Grant relates to the American Recovery and Reinvestment Act of 2009

See accompanying Independent Auditors' Report
See accompanying notes to the financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards include the federal grant activity of Southeast Neighborhood School of Excellence, Inc. and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
Southeast Neighborhood School of Excellence, Inc.
Indianapolis, IN:

Report on Compliance for Each Major Federal Program

We have audited Southeast Neighborhood School of Excellence, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Southeast Neighborhood School of Excellence, Inc.'s major federal programs for the year ended June 30, 2013. Southeast Neighborhood School of Excellence, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Southeast Neighborhood School of Excellence, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southeast Neighborhood School of Excellence, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Southeast Neighborhood School of Excellence, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Southeast Neighborhood School of Excellence, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Southeast Neighborhood School of Excellence, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southeast Neighborhood School of Excellence, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southeast Neighborhood School of Excellence, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Sikich LLP

Indianapolis, Indiana
November 25, 2013

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements:

- Type of auditors’ report issued: **unmodified**

Government Auditing Statements

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(s) identified that are not considered to be material weaknesses? _____ Yes X No

Compliance:

- Noncompliance material to financial statements noted? _____ Yes X No

OMB Circular A-133:

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X No

Compliance with requirements applicable to each major program:

- Identification of major programs: **84.010 Title I, Part A Cluster**
- Dollar threshold used to distinguish between type A type B programs: **\$ 300,000**
- Auditee qualified as low-risk auditee? _____ Yes X No
- Type of auditors’ report issued on compliance for major programs: **unmodified**
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

SECTION II – FINANCIAL STATEMENTS FINDINGS

- *None*

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- *None*