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February 16, 2016

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, 2014 to June 30, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Southeast Neighborhood School of Excellence, Inc., as of June 30, 2015, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report. The report contains one current financial statement finding. Details of the finding may be found in the Schedule of Findings and Questions costs. Management's response directly follows the finding.

In addition to the report presented herein, a Supplemental Audit Report for Southeast Neighborhood School of Excellence, 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

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

For the Years Ended  
June 30, 2015 and 2014



**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
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Members of American Institute of Certified Public Accountants

## 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, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audit 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters – Supplementary Information**

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 17, 2015, 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.



Sikich LLP

Indianapolis, Indiana  
November 17, 2015

## **FINANCIAL STATEMENTS**

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2015 and 2014

<b>ASSETS</b>	<b>2015</b>	<b>2014</b> <b>(Restated)</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 651,724	\$ 471,578
Grants receivable	46,680	49,878
Prepaid expenses	29,369	61,782
Deposits	10,336	10,336
Total current assets	<u>738,109</u>	<u>593,574</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Furniture and equipment	417,153	354,740
Computer hardware	189,747	142,603
Computer software	45,878	45,878
Leasehold improvements	444,669	433,030
Books and educational materials	213,475	201,745
	<u>1,310,922</u>	<u>1,177,996</u>
Less: accumulated depreciation	<u>(625,408)</u>	<u>(509,134)</u>
Total property and equipment, net	<u>685,514</u>	<u>668,862</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,423,623</u></u>	<u><u>\$ 1,262,436</u></u>

See accompanying notes to financial statements.

<b>LIABILITIES AND NET ASSETS</b>	<b>2015</b>	<b>2014 (Restated)</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 43,169	\$ 171,951
Current portion of note payable	69,818	67,420
Deferred rent expense	161,248	76,677
Accrued expenses	173,125	158,788
Accrued paid time off	11,452	1,793
Total current liabilities	<u>458,812</u>	<u>476,629</u>
<b>LONG-TERM LIABILITIES:</b>		
Note payable, net of current portion	<u>153,279</u>	<u>222,974</u>
Total long-term liabilities	<u>153,279</u>	<u>222,974</u>
Total liabilities	<u>612,091</u>	<u>699,603</u>
<b>NET ASSETS:</b>		
Unrestricted	811,532	542,072
Temporary restricted	-	20,761
Total net assets	<u>811,532</u>	<u>562,833</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,423,623</u></u>	<u><u>\$ 1,262,436</u></u>

See accompanying notes to financial statements.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.****STATEMENT OF ACTIVITIES**

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND SUPPORT:</b>			
State support	\$ 3,565,885	\$ -	\$ 3,565,885
Grant revenue	641,532	-	641,532
School lunch program	325,101	-	325,101
In-kind contributions	30,510	-	30,510
Contributions and donations	16,553	-	16,553
Special events, net direct expenses of \$11,015	15,110	-	15,110
Other revenue	12,104	-	12,104
Student fees	902	-	902
Net assets released from restrictions by satisfaction of temporary restrictions	20,761	(20,761)	-
Total revenues and support	4,628,458	(20,761)	4,607,697
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES:</b>			
Program services	3,913,673	-	3,913,673
Supporting services:			
General and administrative	423,948	-	423,948
Fundraising	21,377	-	21,377
Total expenses	4,358,998	-	4,358,998
<b>CHANGE IN NET ASSETS</b>	269,460	(20,761)	248,699
<b>NET ASSETS</b> , beginning of year	542,072	20,761	562,833
<b>NET ASSETS</b> , end of year	\$ 811,532	\$ -	\$ 811,532

See accompanying notes to financial statements.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2014  
(Restated)

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND SUPPORT:</b>			
School lunch program	\$ 269,543	\$ -	\$ 269,543
In-kind contributions	9,544	-	9,544
Student fees	4,422	-	4,422
Contributions and donations	18,361	-	18,361
Grant revenue	559,036	20,761	579,797
State support	3,120,059	-	3,120,059
Other revenue	15,974	-	15,974
Net assets released from restrictions by satisfaction of temporary restrictions	4,085	(4,085)	-
Total revenues and support	4,001,024	16,676	4,017,700
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES:</b>			
Program services	3,250,109	-	3,250,109
Supporting services:			
General and administrative	548,495	-	548,495
Fundraising	32,055	-	32,055
Total expenses	3,830,659	-	3,830,659
<b>CHANGE IN NET ASSETS</b>	170,365	16,676	187,041
<b>NET ASSETS</b> , beginning of year as previously reported	427,293	4,085	431,378
<b>PRIOR PERIOD ADJUSTMENT (NOTE 8)</b>	(55,586)	-	(55,586)
<b>NET ASSETS</b> , beginning of year, as restated	371,707	4,085	375,792
<b>NET ASSETS</b> , end of year	\$ 542,072	\$ 20,761	\$ 562,833

See accompanying notes to financial statements.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**STATEMENTS OF CASH FLOWS**

Year Ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b> <b>(Restated)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 248,699	\$ 187,041
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	116,274	67,416
Contributions of property and equipment	(1,297)	-
Decrease (increase) in:		
Grants receivable	3,198	6,135
Prepaid expense	32,413	(64,119)
Increase (decrease) in:		
Accounts payable	(128,782)	120,892
Deferred rent expense	84,571	76,677
Accrued expenses	14,337	30,866
Accrued paid time off	9,659	1,793
Net cash and cash equivalents provided by operating activities	<u>379,072</u>	<u>426,701</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(131,629)</u>	<u>(529,993)</u>
Net cash and cash equivalents used by investing activities	<u>(131,629)</u>	<u>(529,993)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term debt borrowings	-	350,000
Long-term debt repayments	<u>(67,297)</u>	<u>(59,606)</u>
Net cash and cash equivalents (used) provided by financing activities	<u>(67,297)</u>	<u>290,394</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>180,146</u>	<u>187,102</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>471,578</u>	<u>284,476</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 651,724</u></u>	<u><u>\$ 471,578</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest	<u>\$ 9,207</u>	<u>\$ 10,524</u>
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES</b>		
Contributions of property and equipment	<u>\$ 1,297</u>	<u>\$ -</u>

See accompanying notes to financial statements.

# SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

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### 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

Southeast Neighborhood School of Excellence (the "School") was incorporated March 21, 2003, under the laws of the State of Indiana and commenced operations in September 2004. 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 in accordance with accounting principles generally accepted in the United States of America (US GAAP).

#### Basis of Presentation

Net assets, revenue and expenses, and gain and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly net assets and changes therein are classified as: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets available for use in general operations.

Temporarily restricted net assets – Temporarily restricted net assets are those which have donor-imposed restrictions as to time, purpose, or both.

Permanently restricted net assets – Permanently restricted amounts are those which are subject to donor-imposed stipulations that require they be maintained permanently by the School. Generally, the donors of these assets permit the use of all or part of the income earned on the related investments for general or specific purposes. As of June 30, 2015 and 2014, the School had no permanently restricted net assets.

#### Cash and Cash Equivalents

The School considers all short-term investments in interest-bearing bank accounts having an original maturity of three months or less, to be cash equivalents.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Grants Receivable

Grants receivable are amounts due under cost reimbursable contracts with primarily state and federal government agencies. Invoicing and payment terms are provided in the contracts.

Management reviews grant receivables on a periodic basis to determine if any receivables will potentially be uncollectable. The School includes any grant receivable balances that are determined to be uncollectable in its allowance for doubtful accounts. After all attempts to collect the receivable have failed, the receivable is written-off against the allowance. Based upon management's evaluation as of June 30, 2015 and 2014, an allowance for uncollectible accounts was not considered necessary. However, actual write-offs may occur.

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 \$116,274 and \$67,416 for the year ended June 30, 2015 and 2014, respectively.

Deferred Rent Expense

Rent expense is recognized on a straight-line basis over the lease term. The excess of expense over the payments is recorded as deferred rent expense. In subsequent periods, deferred rent expense is reduced when the monthly payments exceed the rent expense.

Contributed Materials and Services

Contributed services are recognized as contributions 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.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Non-cash, in-kind contributions are recorded at fair value and recognized as revenue in the accounting period when they are received.

The School received \$30,510 and \$9,544 of in-kind contributions during the year ended June 30, 2015 and 2014, primarily consisting of nursing services provided at no charge of \$29,213 and \$9,544 in 2015 and 2014, respectively.

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 USGAAP.

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 July through June following the start of the academic school year. Revenue is recognized in the year in which the educational services are rendered.

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

Expenses are allocated to the programs based on estimated time spent in each program. Expenses related directly to specific programs are charged to that program. Expenses that relate to more than one program or supporting service are allocated according to a cost allocation plan based on direct labor hours, square footage or other measures deemed appropriate for each cost category.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with USGAAP. 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.

**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Advertising

The School expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2015 and 2014 was \$9,027 and \$3,758, respectively.

Income Taxes

The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the IRC. 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 2011 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 Operations and Credit Risk

Credit Risk

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of temporary cash investments and grants receivable. These financial instruments are carried at their appropriate fair value due to their short maturities. The School's policy is to limit credit exposure on financial instruments and place its cash with financial institutions deemed credit worthy.

The School places its temporary cash investments with financial institutions. There was \$465,834 in excess of Federal Deposit Insurance Corporation insured limits at June 30, 2015. Historically, the School has not experienced losses on uninsured balances.

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.

**1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Business Risk

Operating Funds from the Indiana Department of Education amounted to 77% and 78% of the School's support and revenue for the years ended June 30, 2015 and 2014, 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.

Reclassification

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

**2. 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 (for example, 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. The amount of state support receivable was \$1,243,866, which was offset by an allowance in the same amount.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay the 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 School believes that it has been adversely affected by the legislative changes relating to the elimination of funding, and is pursuing relief through its elected representatives and the Indiana Department of Education. The prospect for success is unknown as of June 30, 2015. The School continues to carry a receivable relating to the funding reduction on its books, offset by a collectability allowance in the same amount.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**3. GRANTS RECEIVABLE**

Grants receivable for the years ended June 30, 2015 and 2014 represent amounts due from the Indiana Department of Education relating to the following grants:

	<b>2015</b>	<b>2014</b>
Title I	\$ 30,032	\$ 28,057
Title II	9,603	8,508
Nutrition	2,526	11,904
Special Education	2,350	1,409
School Technology	200	-
Excellence in Performance	1,969	-
<b>TOTAL GRANTS RECEIVABLE</b>	<b>\$ 46,680</b>	<b>\$ 49,878</b>

**4. OPERATING LEASES**

On July 7, 2013, the School entered into a five year lease agreement with Southeast Neighborhood Development, Inc. for its educational facilities. This lease was effective on August 1, 2013, superseded the former agreement, and increased the leased space to include the entire building to allow for school expansion. The lease, which expires on August 1, 2018, requires monthly payments ranging from \$45,003 to \$60,413 over the term of the lease. The variability of these payments were an effort to both allow the school to reflect the gradual utilization of space as the school expanded and to encourage the school to evaluate the potential purchase of the building (see Note 9). The varying monthly payments are averaged over the term of the lease. Since the lease has varying lease payments over the term of the lease, an adjustment for deferred rent has been made. During the years ended June 30, 2015 and 2014, \$614,446 (\$529,875 in cash and \$84,571 in deferred rent) and \$590,173 (\$513,496 in cash and \$76,677 in deferred rent), respectively, was expensed for school rent.

The School has a number of operating lease agreements with various monthly payments expiring through 2019. During the year ended June 30, 2015 and 2014, \$72,685 and \$49,172, respectively, was expensed.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2015 are as follows for the years ended June 30,:

2016	\$ 668,727
2017	659,475
2018	636,725
2019	634,630
2020	5,046
<b>TOTAL MINIMUM LEASE PAYMENTS</b>	<b>\$ 2,604,603</b>

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
NOTES TO FINANCIAL STATEMENTS (Continued)

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**5. 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 a cost-sharing multiple-employer public employee retirement plan, 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, 2015 and 2014, the School contributed \$208,456 and \$179,050, 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.

**6. LONG-TERM DEBT ACTIVITY**

The School obtained a loan, payable to Old National Bank, for \$350,000 on July 30, 2013. The interest rate is fixed at 3.50% and collateralized by all property and assets. Principal and interest are payable at \$6,375 per month with a balloon payment in full due July 30, 2018. The balance of the loan as of June 30, 2015 was \$223,097.

The aggregate minimum principal maturities of long-term debt obligations are as follows for the years ended June 30,:

2016	\$ 69,818
2017	72,301
2018	74,872
2019	6,106
<b>TOTAL</b>	<b><u>\$ 223,097</u></b>

Total interest expense during the year ended June 30, 2015 and 2014 was \$9,207 and \$10,524.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2015 and 2014 are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Program restrictions	\$ -	\$ 20,761

**8. RESTATEMENTS**

Net assets as of the beginning of the fiscal year 2014 have been adjusted to increase accrued payroll for obligations to contract employees that should have been recognized in prior years. The correction resulted in a decrease in net assets by \$55,586 related to fiscal year 2013. The correction also resulted in an increase in payroll expenses of \$15,052 for fiscal year 2014.

Net assets, July 1, 2014, as previously reported	\$ 431,378
Prior period adjustment: July 20, 2014 payroll	<u>(55,586)</u>
<b>NET ASSETS, JULY 1, 2014, AS RESTATED</b>	<u><u>\$ 375,792</u></u>

	<u>2014 Previously Reported</u>	<u>2014 Restated Amount</u>
Statement of activities:		
Expenses		
Program Service Expenses	\$ 3,239,033	\$ 3,250,109
Management and general	544,518	548,495
Statement of financial position:		
Accrued payroll	88,150	158,788
Net assets		
Unrestricted	612,710	542,072
Statement of cash flows:		
Change in net assets	202,093	187,041
Increase in accrued payroll	15,814	30,866

**9. SUBSEQUENT EVENT**

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through November 17, 2015, the date the financial statements were available to be issued.

The School and the owner of the building, Southeast Neighborhood Development, Inc. (SEND) have agreed on the terms of the School's acquisition of the currently leased educational facility. As part of the acquisition of the facility, the School will assume the existing SEND debt on the facility of approximately \$3.7 million (this will change based on closing date) as well as the liability for all future building repairs less \$60,000 paid by SEND towards repairs. Closing is expected prior to November 1, 2015. Simultaneous with closing, the existing lease on the facilities (Note 4) will be terminated.

**SUPPLEMENTARY INFORMATION**

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**SCHEDULE OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2015

	<b>Program Service Expenses</b>	<b>Supporting Services Management</b>		<b>Total Expenses</b>
	<b>Academics</b>	<b>and General</b>	<b>Fundraising</b>	
Salaries and benefits	\$ 2,131,173	\$ 258,005	\$ -	\$ 2,389,178
Instructional services	206,738	1,350	-	208,088
Information technology	25,024	2,475	-	27,499
Accounting services	-	60,243	-	60,243
Other outside services	35,000	1,497	13,021	49,518
Course materials/supplies	72,538	3,723	3,422	79,683
Nutritional support	301,809	1,693	11,994	315,496
Travel and entertainment	112	305	180	597
Vehicle/transportation expense	124,875	-	-	124,875
Rent and facilities	866,602	80,117	-	946,719
Depreciation and amortization	105,809	10,465	-	116,274
Interest expense	8,379	828	-	9,207
Insurance	29,400	3,152	-	32,552
Advertising expenses	5,252	-	3,775	9,027
Small equipment purchases	962	95	-	1,057
Less: direct expenses of special events	-	-	(11,015)	(11,015)
<b>TOTAL EXPENSES</b>	<b>\$ 3,913,673</b>	<b>\$ 423,948</b>	<b>\$ 21,377</b>	<b>\$ 4,358,998</b>

See accompanying notes to the financial statements.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**SCHEDULE OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2014

(Restated)

	<b>Program Service Expenses</b>	<b>Supporting Services</b>		<b>Total Expenses</b>
	<b>Academics</b>	<b>Management and General</b>	<b>Fundraising</b>	
Salaries and benefits	\$ 1,747,817	\$ 271,079	\$ -	\$ 2,018,896
Instructional services	177,734	-	10,724	188,458
Information technology	26,465	12,293	-	38,758
Accounting services	-	59,691	-	59,691
Other outside services	27,578	110,172	-	137,750
Course materials/supplies	96,815	4,101	6,268	107,184
Nutritional support	244,339	1,703	9,066	255,108
Travel and entertainment	2,011	466	-	2,477
Vehicle/transportation expense	80,812	-	4,668	85,480
Rent and facilities	743,086	74,045	-	817,131
Depreciation and amortization	60,674	6,742	-	67,416
Interest expense	8,615	1,909	-	10,524
Insurance	30,963	3,684	-	34,647
Advertising expenses	17	2,412	1,329	3,758
Small equipment purchases	1,383	-	-	1,383
Miscellaneous	1,800	198	-	1,998
<b>TOTAL EXPENSES</b>	<b>\$ 3,250,109</b>	<b>\$ 548,495</b>	<b>\$ 32,055</b>	<b>\$ 3,830,659</b>

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, 2015, 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 17, 2015.

**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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitation, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

### **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*.

### **Southeast Neighborhood School of Excellence, Inc.'s Response to Findings**

Southeast Neighborhood School of Excellence, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Southeast Neighborhood School of Excellence, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.



Sikich LLP

Indianapolis, Indiana  
November 17, 2015

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2015

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the Indiana Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553*		\$ 73,423
National School Lunch Program	10.555*		223,663
Summer Food Service Program for Children	10.559*		4,936
Total for Child Nutrition Cluster			302,022
Fresh Fruits and Vegetable Program	10.582		21,771
Total for U.S. Department of Agriculture			323,793
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the Indiana Department of Education			
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	14214-503-PN01	3,135
Special Education Grants to States		14215-503-PN01	66,826
Total Special Education Cluster (IDEA)	84.027		69,961
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	14-9485	76,578
Title I Grants to Local Educational Agencies		15-9485	394,015
Total Title I, Part A Cluster	84.010		470,593
Improving Teacher Quality State Grants	84.367	13-9485	9,529
Improving Teacher Quality State Grants		14-9485	17,879
Total for Teacher Quality State Grants	84.367		27,408
Total U.S. Department of Education			567,962
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 891,755</b>

\* Denotes a major program

See accompanying notes to the schedule of expenditures of federal awards.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2015

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) include the federal grant activity of Southeast Neighborhood School of Excellence, Inc. under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Southeast Neighborhood School of Excellence, Inc. it is not intended to and does not present the financial position, changes in net assets or cash flows of Southeast Neighborhood School of Excellence, Inc.

**NOTE 2 – BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded as liabilities when incurred. Such expenditures are recognized following the cost principles contained in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity numbers are presented where available. Southeast Neighborhood School of Excellence, Inc. applies all Financial Accounting Standards Board pronouncements in accounting and reporting.

**NOTE 3 – COMMODITIES**

Non monetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed under the Child Nutrition Cluster. (CFDA 10.553, 10.555, 10.559). For the year ended June 30, 2015, the School received food commodities totaling \$73.

**NOTE 4 – OTHER**

There were no amounts provided to sub-recipients; there was no non-cash assistance; there was no federal insurance in effect; and there were no loans or loan guarantees with continuing compliance requirements.



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE 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, 2015. 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, 2015.

### **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.

A handwritten signature in black ink that reads "Sikich LLP". The letters are cursive and somewhat stylized.

Sikich LLP

Indianapolis, Indiana  
November 17, 2015

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2015

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

***Financial Statements:***

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

***Internal control over financial reporting:***

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

***Compliance:***

- Noncompliance material to financial statements noted?  Yes  No

***OMB Circular A-133:***

***Internal control over major programs:***

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

***Compliance with requirements applicable to each major program:***

- Identification of major programs: **10.553, 10.555, 10.559 Child Nutrition Cluster**
- Dollar threshold used to distinguish between type A type B programs: **\$ 300,000**
- Auditee qualified as low-risk auditee?  Yes  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  No

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2015

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**SIGNIFICANT DEFICIENCY**

**2015-001: Audit Adjustments**

*Condition:* During the audit process we identified financial statement adjustments which affected both the current year and prior year financial statements. The adjustments included recording accrued payroll for contract employees in the proper period.

*Criteria:* Internal controls should be in place to record all material transactions in the books and records of the School. It is the responsibility of management to record all transactions necessary to generate financial statements and disclosures in accordance with accounting principles generally accepted in the United States of America.

*Recommendation:* We recommend the adjustments identified during the 2015 audit, whether recorded or not, be carefully reviewed and the issues which gave rise to the adjustments be investigated and resolved prior to the fiscal year 2016 audit.

*Management's Response:* The Management of the Southeast Neighborhood School of Excellence have reviewed and recorded the adjustments identified during the 2015 audit. Internal controls have been implemented to record accrued payroll for contract employees for the 2016 and future fiscal years.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**SECTION IV – PRIOR YEAR FINDINGS**

None

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**

**OTHER REPORT**

Year Ended June 30, 2015

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The reports presented herein were prepared in addition to another report prepared for the School as listed below:

Supplemental Audit Report of Southeast Neighborhood School of Excellence, Inc. as required by the Indiana State Board of Accounts.