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November 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, 2015 to June 30, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Southeast Neighborhood School of Excellence, Inc., as of June 30, 2016, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

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

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

For the Years Ended  
June 30, 2016 and 2015

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

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	<u>Page(s)</u>
INDEPENDENT AUDITOR’S REPORT .....	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position .....	3-4
Statements of Activities .....	5-6
Statements of Cash Flows .....	7-8
Notes to Financial Statements .....	9-16
OTHER REPORTS AND SUPPLEMENTARY INFORMATION	
Statements of Functional Expenses.....	17-18
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 <i>Government Auditing Standards</i> .....	19-20
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance .....	21-22
Schedule of Expenditures of Federal Awards .....	23
Notes to the Schedule of Expenditures of Federal Awards .....	24
Schedule of Findings and Questioned Costs .....	25-26



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Certified Public Accountants & Advisors  
Members of American Institute of Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Neighborhood School of Excellence, Inc. (an Indiana nonprofit organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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, 2016 and 2015, and the changes in its net assets and its cash flows for the year 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 statements of functional expenses are presented for purposes of additional analysis and are 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 audits 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 1, 2016, 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 ABC Organization's internal control over financial reporting and compliance.

*Sikich LLP*

Indianapolis, Indiana  
November 1, 2016

## **FINANCIAL STATEMENTS**

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

**STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2016 and 2015

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,020,855	\$ 651,724
Grants receivable	44,093	46,680
Prepaid expenses	47,523	29,369
Deposits	-	10,336
Total current assets	<u>1,112,471</u>	<u>738,109</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	473,016	417,153
Computer hardware	183,189	189,747
Computer software	50,819	45,878
Leasehold improvements	-	444,669
Building	4,188,740	-
Textbooks and education	218,938	213,475
	<u>5,114,702</u>	<u>1,310,922</u>
Less: Accumulated depreciation	<u>821,702</u>	<u>625,408</u>
Total property and equipment, net	<u>4,293,000</u>	<u>685,514</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,405,471</u></u>	<u><u>\$ 1,423,623</u></u>

See accompanying notes to financial statements.

<b>LIABILITIES AND NET ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 93,515	\$ 43,169
Notes payable - current	266,926	69,818
Deferred rent expense	-	161,248
Accrued payroll	190,878	173,125
Accrued paid time off	17,425	11,452
Accrued interest	11,581	-
Total current liabilities	580,325	458,812
<b>LONG-TERM LIABILITIES</b>		
Notes payable - long-term	3,507,288	153,279
Total long-term liabilities	3,507,288	153,279
Total liabilities	4,087,613	612,091
<b>NET ASSETS</b>		
Unrestricted	1,317,858	811,532
Total net assets	1,317,858	811,532
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,405,471</b>	<b>\$ 1,423,623</b>

See accompanying notes to financial statements.

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

**STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND SUPPORT</b>			
State support	\$ 3,554,393	\$ -	\$ 3,554,393
Grant revenue	903,857	-	903,857
School lunch program	358,810	-	358,810
Contributions and donations	36,577	-	36,577
Other revenue	14,598	-	14,598
Student fees	1,183	-	1,183
Total revenues and support	4,869,418	-	4,869,418
<b>PROGRAM AND SUPPORTING SERVICE EXPENSES</b>			
Program services	3,944,717	-	3,944,717
Supporting services:			
General and administrative	389,481	-	389,481
Fundraising	28,894	-	28,894
Total expenses	4,363,092	-	4,363,092
<b>CHANGE IN NET ASSETS</b>	506,326	-	506,326
<b>NET ASSETS</b> , beginning of year	811,532	-	811,532
<b>NET ASSETS</b> , end of year	\$ 1,317,858	\$ -	\$ 1,317,858

See accompanying notes to financial statements.

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

**STATEMENT OF ACTIVITIES**

For the 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 cost of direct benefit to donors 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.**

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 506,326	\$ 248,699
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	196,294	116,274
Contributions of property and equipment	-	(1,297)
Decrease (increase) in:		
Grants receivable	2,587	3,198
Prepaid expenses	(18,154)	32,413
Deposits	10,336	-
Increase (decrease) in:		
Accounts payable	50,346	(128,782)
Deferred rent expense	(161,248)	84,571
Accrued payroll	17,753	14,337
Accrued paid time off	5,973	9,659
Accrued interest	11,581	-
Net cash and cash equivalents provided by operating activities	<u>621,794</u>	<u>379,072</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(102,165)</u>	<u>(131,629)</u>
Net cash and cash equivalents used by investing activities	<u>\$ (102,165)</u>	<u>\$ (131,629)</u>

See accompanying notes to financial statements.

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

**STATEMENTS OF CASH FLOWS**

For the Years Ended June 30, 2016 and 2015

<b>(Continued)</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Long-term debt borrowings	\$ 3,636,564	\$ -
Long-term debt repayments	(3,787,062)	(67,297)
Net cash and cash equivalents provided (used) by financing activities	(150,498)	(67,297)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	369,131	180,146
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	651,724	471,578
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 1,020,855	\$ 651,724
<b>SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION</b>		
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Acquisition of building and assumption of debt	\$ 3,701,615	\$ -
Contributions of property and equipment	\$ -	\$ 1,297
Interest	\$ 69,477	\$ 9,207

See accompanying notes to financial statements.

# SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

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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.

The School operates a public charter school established under Indiana Code 20-24-3-1 and is sponsored by the Mayor of the Consolidated City of Indianapolis (Sponsor), which is responsible for oversight of the School's operations. The charter expires on June 30, 2018. There were no fees paid to the Sponsor for the years ended June 30, 2016 and 2015.

#### 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 (GAAP).

#### 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.

#### Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most significant estimates are the useful lives of property and equipment and the value of in-kind donations.

**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)**

Net Assets

The School reports 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.

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 net assets result from a donor's specification that the assets be invested in perpetuity and that, generally only the income may be used. As of June 30, 2016 and 2015, 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.

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, 2016 and 2015, an allowance for uncollectible accounts was not considered necessary. However, actual write-offs may occur.

**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)**

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. 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.

The useful lives are as follows:

	<u>Years</u>
Furniture and equipment	3
Computer hardware	3
Computer software	3
Building	40
Leasehold improvements	8
Textbooks and education	4

Depreciation expense was \$196,294 and \$116,274 for the years ended June 30, 2016 and 2015, respectively.

Deferred Rent Expense

Rent expense was recognized on a straight-line basis over the lease term for building rent. The excess of expense over the payments was recorded as deferred rent expense.

Contributions

Contributions are recognized as revenue when the donor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**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)**

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.

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 GAAP.

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.

Advertising

The School expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2016 and 2015 was \$1,000 and \$9,027, 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 is not considered to be a private foundation.

Concentration of Operations and Credit Risk

Credit Risk

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 \$770,655 in excess of Federal Deposit Insurance Corporation insured limits at June 30, 2016. Historically, the School has not experienced losses on uninsured balances.

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

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

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.

Business Risk

Operating Funds from the Indiana Department of Education amounted to 80% and 77% of the School's support and revenue for the years ended June 30, 2016 and 2015, 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.

**2. GRANTS RECEIVABLE**

Grants receivable for the years ended June 30, 2016 and 2015 represent amounts due from the Indiana Department of Education relating to the following grants:

	<b>2016</b>	<b>2015</b>
Title I	\$ 19,051	\$ 30,032
Title II	21,550	9,603
Nutrition	-	2,526
Special Education	1,449	2,350
Early Intervention	2,043	-
School Technology	-	200
Excellence in Performance	-	1,969
	<hr/>	<hr/>
TOTAL GRANTS RECEIVABLE	<b>\$ 44,093</b>	<b>\$ 46,680</b>

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

**3. CONTRIBUTED MATERIALS AND SERVICES**

The School received donated materials and services as follows for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Nursing services	\$ -	\$ 29,213
Equipment	-	1,297
<b>TOTAL</b>	<u>\$ -</u>	<u>\$ 30,510</u>

**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 required 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. During the effective period of the lease, the varying monthly payments were averaged over the term of the lease. Since the lease had varying lease payments over the term of the lease, an adjustment for deferred rent was made. During the years ended June 30, 2016 and 2015, \$43,508 (\$204,756 in cash and reversal of deferred rent of \$161,248) and \$614,446 (\$529,875 in cash and \$84,571 in deferred rent), was expensed for building rent. In October 2015, the School purchased the building from Southeast Neighborhood Development, Inc., terminating the lease.

The School has a number of operating lease agreements with various monthly payments expiring through 2019. During the year ended June 30, 2016 and 2015, \$64,149 and \$72,685, respectively, was expensed.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2016 are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 49,293
2018	26,543
2019	24,231
2020	5,460
<b>TOTAL MINIMUM LEASE PAYMENTS</b>	<u>\$ 105,527</u>

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

**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, 2016 and 2015, the School contributed \$239,053 and \$208,456, 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. NOTES PAYABLE**

At June 30, 2016 and 2015, notes payable consisted of the following:

	<u>2016</u>	<u>2015</u>
Loan payable in monthly installments, including interest computed at 3.5%, with a balloon payment in full due at maturity on July 30, 2018. Secured by all property and assets.	\$ 153,408	\$ 223,097
Bank loan payable in monthly installments of \$6,310, including interest computed at 4.75%, through maturity on February 11, 2026. Secured by the school building.	584,242	-
Common School Loan payable in semi-annual payments of \$151,828 beginning January 2017, including interest computed at 1%, through maturity on July 1, 2026. Secured by the school building.	3,036,564	-
Total notes payable	3,774,214	223,097
Less: Current maturities	(266,926)	(69,818)
<b>AMOUNT DUE AFTER ONE YEAR</b>	<u><u>\$ 3,507,288</u></u>	<u><u>\$ 153,279</u></u>

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

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**6. NOTES PAYABLE (Continued)**

The aggregate minimum principal maturities of long-term debt obligations are as follows for the years ended June 30, 2016:

<u>Year</u>	<u>Amount</u>
2017	\$ 272,704
2018	429,532
2019	363,565
2020	359,798
2021	362,615
Thereafter	<u>1,986,000</u>
<b>TOTAL</b>	<b><u><u>\$ 3,774,214</u></u></b>

Total interest expense during the years ended June 30, 2016 and 2015 was \$81,058 and \$9,207, respectively.

**7. COMMITMENTS**

The School has entered into an agreement for the renovation of their educational facility. The estimated costs and outstanding commitments for the renovation as of June 30, 2016 are \$145,500.

**8. FUNCTIONAL EXPENSES**

	<u>2016</u>	<u>2015</u>
Functional expenses:		
Program services	\$ 3,944,717	\$3,913,673
Management and general	389,481	423,948
Fundraising	28,894	21,377
Total functional expenses	<u>4,363,092</u>	<u>4,358,998</u>
Cost of direct benefit to donors	-	11,015
<b>TOTAL EXPENSES</b>	<b><u><u>\$ 4,363,092</u></u></b>	<b><u><u>\$4,370,013</u></u></b>

**9. SUBSEQUENT EVENTS**

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through November 1, 2016, the date the financial statements were available to be issued.

**OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

**SOUTHEAST NEIGHBORHOOD OF EXCELLENCE, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

For the Year Ended June 30, 2016

	<b>Program Service Expenses</b>	<b>Supporting Services</b>			<b>Total Expenses</b>
	<b>Academics</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	
Salaries and benefits	\$ 2,479,777	\$ 261,711	\$ 5,000	266,711	\$ 2,746,488
Instructional services	181,483	-	-	-	181,483
Information technology	26,962	2,344	-	2,344	29,306
Accounting services	-	54,718	-	54,718	54,718
Other outside services	65,629	9,572	15,000	24,572	90,201
Course materials/supplies	78,438	7,271	-	7,271	85,709
Nutritional support	330,995	837	8,894	9,731	340,726
Travel and entertainment	280	424	-	424	704
Vehicle/transportation expense	171,000	-	-	-	171,000
Rent and facilities	308,506	26,827	-	26,827	335,333
Depreciation and amortization	180,590	15,704	-	-	196,294
Interest expense	74,573	6,485	-	6,485	81,058
Insurance	36,786	3,541	-	3,541	40,327
Advertising expenses	9,160	-	-	-	9,160
Small equipment purchases	538	47	-	47	585
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 3,944,717</b>	<b>\$ 389,481</b>	<b>\$ 28,894</b>	<b>\$ 402,671</b>	<b>\$ 4,363,092</b>

**SOUTHEAST NEIGHBORHOOD OF EXCELLENCE, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2015

	Program Service Expenses	Supporting Services				Total Expenses
		Management and General	Fundraising	Cost of Sales	Total Supporting Services	
Salaries and benefits	\$ 2,131,173	\$ 258,005	\$ -	\$ -	258,005	\$ 2,389,178
Instructional services	206,738	1,350	-	-	1,350	208,088
Information technology	25,024	2,475	-	-	2,475	27,499
Accounting services	-	60,243	-	-	60,243	60,243
Other outside services	35,000	1,497	2,006	-	3,503	38,503
Course materials/supplies	72,538	3,723	3,422	-	7,145	79,683
Nutritional support	301,809	1,693	11,994	-	13,687	315,496
Travel and entertainment	112	305	180	-	485	597
Vehicle/transportation expense	124,875	-	-	-	-	124,875
Rent and facilities	866,602	80,117	-	-	80,117	946,719
Depreciation and amortization	105,809	10,465	-	-	-	116,274
Interest expense	8,379	828	-	-	828	9,207
Insurance	29,400	3,152	-	-	3,152	32,552
Advertising expenses	5,252	-	3,775	-	3,775	9,027
Small equipment purchases	962	95	-	-	95	1,057
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>3,913,673</b>	<b>423,948</b>	<b>21,377</b>	<b>-</b>	<b>434,860</b>	<b>4,358,998</b>
<b>COST OF SALES</b>						
Cost of direct benefits to donors	-	-	-	11,015	11,015	11,015
	<b>\$ 3,913,673</b>	<b>\$ 423,948</b>	<b>\$ 21,377</b>	<b>\$ 11,015</b>	<b>\$ 445,875</b>	<b>\$ 4,370,013</b>



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**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.

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, 2016, 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 1, 2016.

**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 opinion 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Sikich LLP*

Indianapolis, Indiana  
November 1, 2016



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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

### **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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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, 2016.

## **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 the Uniform Guidance, 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Sikich LLP*

Indianapolis, Indiana  
November 1, 2016

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2016

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying</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		\$ 87,071
National School Lunch Program	10.555		248,914
Summer Food Service Program for Children	10.559		<u>1,274</u>
Total for Child Nutrition Cluster			<u>337,259</u>
Child Nutrition Discretionary Grants Limited Availability	10.579		<u>20,000</u>
Fresh Fruits and Vegetable Program	10.582		<u>20,672</u>
Total for U.S. Department of Agriculture			<u>377,931</u>
<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	14215-503-PN01	2,113
Special Education Grants to States	84.027	14216-502-PN01	<u>76,937</u>
Total Special Education Cluster (IDEA)	84.027		<u>79,050</u>
Title I, Part A:			
Title I Grants to Local Educational Agencies	84.010	14-9485	73,793 *
Title I Grants to Local Educational Agencies	84.010	15-9485	<u>334,253 *</u>
Total Title I, Part A	84.010		<u>408,046</u>
Improving Teacher Quality State Grants	84.367	14-9485	25,196
Improving Teacher Quality State Grants	84.367	15-9485	<u>26,659</u>
Total for Teacher Quality State Grants	84.367		<u>51,855</u>
Total U.S. Department of Education			<u>538,951</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 916,882</u></u>

\* Denotes a major program

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

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

For the Year Ended June 30, 2016

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Southeast Neighborhood School of Excellence, Inc. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. Southeast Neighborhood School of Excellence, Inc. has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**NOTE 3 – 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.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2016

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**SECTION I – SUMMARY OF AUDITOR’S 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

***Federal Awards:***

***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: **84.010 Title I, Part A**
- Dollar threshold used to distinguish between type A type B programs: **\$ 750,000**
- 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 2CFR section 200.516(a)?  Yes  No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2016

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**SECTION II – FINANCIAL STATEMENTS FINDINGS**

None

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

None

**SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS**

**2015-001: Audit Adjustments**

*Condition:* This finding was a significant deficiency stating that material journal entries were necessary to correct the financial statements for the years ended June 30, 2015 and 2014.

*Recommendation:* We recommended 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.

*Current Status:* The recommendation was adopted during the year ended June 30, 2016. No similar issues were noted during the current audit.