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November 21, 2017

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

We have reviewed the report prepared by Southeast Neighborhood School of Excellence, Inc. and opined upon by Sikich LLP, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Southeast Neighborhood School of Excellence, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

The report is filed with this letter 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, 2017 and 2016

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SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR’S REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3-4
Statements of Activities	5
Statements of Cash Flows	6-7
Notes to Financial Statements.....	8-14
OTHER REPORTS AND SUPPLEMENTARY INFORMATION	
Statements of Functional Expenses.....	15-16
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>	17-18
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	19-20
Schedule of Expenditures of Federal Awards.....	21
Notes to the Schedule of Expenditures of Federal Awards.....	22
Schedule of Findings and Questioned Costs.....	23-24

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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. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, 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, 2017 and 2016, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses and schedule of expenditures of federal awards, 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*, are presented for purposes of additional analysis and are 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 16, 2017, 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 16, 2017

FINANCIAL STATEMENTS

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30,

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,035,461	\$ 1,020,855
Grants receivable	57,726	44,093
Prepaid expenses	52,275	47,523
Total current assets	<u>1,145,462</u>	<u>1,112,471</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	547,680	473,016
Computer hardware	221,798	183,189
Computer software	53,937	50,819
Building	4,291,429	4,188,740
Textbooks and education	226,897	218,938
Construction in progress	1,033,712	-
	<u>6,375,453</u>	<u>5,114,702</u>
Less: Accumulated depreciation	<u>1,047,075</u>	<u>821,702</u>
Total property and equipment, net	<u>5,328,378</u>	<u>4,293,000</u>
TOTAL ASSETS	<u>\$ 6,473,840</u>	<u>\$ 5,405,471</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS	2017	2016
CURRENT LIABILITIES		
Accounts payable	\$ 470,282	\$ 93,515
Construction loan	143,074	-
Notes payable - current	429,532	266,926
Deferred revenue	9,780	-
Accrued payroll	222,138	190,878
Accrued paid time off	19,300	17,425
Accrued interest	18,179	11,581
Accrued retainage	95,066	-
Total current liabilities	1,407,351	580,325
LONG-TERM LIABILITIES		
Notes payable - long-term	3,071,987	3,507,288
Total long-term liabilities	3,071,987	3,507,288
Total liabilities	4,479,338	4,087,613
NET ASSETS		
Unrestricted	1,994,502	1,317,858
Total net assets	1,994,502	1,317,858
TOTAL LIABILITIES AND NET ASSETS	\$ 6,473,840	\$ 5,405,471

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30,

	<u>2017</u>	<u>2016</u>
UNRESTRICTED REVENUES AND SUPPORT		
State support	\$ 4,018,186	\$ 3,554,393
Grant revenue	1,164,220	903,857
School lunch program	408,053	358,810
Contributions and donations	44,422	36,577
Other revenue	23,637	14,598
Student fees	1,978	1,183
Total unrestricted revenues and support	<u>5,660,496</u>	<u>4,869,418</u>
PROGRAM AND SUPPORTING SERVICE EXPENSES		
Program services	4,519,523	3,944,717
Supporting services:		
General and administrative	464,329	389,481
Fundraising	-	28,894
Total expenses	<u>4,983,852</u>	<u>4,363,092</u>
CHANGE IN UNRESTRICTED NET ASSETS	676,644	506,326
UNRESTRICTED NET ASSETS, beginning of year	<u>1,317,858</u>	<u>811,532</u>
UNRESTRICTED NET ASSETS, end of year	<u>\$ 1,994,502</u>	<u>\$ 1,317,858</u>

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 676,644	\$ 506,326
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	225,373	196,294
Decrease (increase) in:		
Grants receivable	(13,633)	2,587
Prepaid expenses	(4,752)	(18,154)
Deposits	-	10,336
Increase (decrease) in:		
Accounts payable	(128,565)	50,346
Deferred rent expense	9,780	(161,248)
Accrued payroll	31,260	17,753
Accrued paid time off	1,875	5,973
Accrued interest	6,598	11,581
Accrued retainage	95,066	-
Net cash and cash equivalents provided by operating activities	<u>899,646</u>	<u>621,794</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(612,345)</u>	<u>(102,165)</u>
Net cash and cash equivalents used by investing activities	<u>\$ (612,345)</u>	<u>\$ (102,165)</u>

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

(Continued)	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt borrowings	\$ -	\$ 3,636,564
Long-term debt repayments	(272,695)	(3,787,062)
Net cash and cash equivalents (used) by financing activities	(272,695)	(150,498)
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,606	369,131
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,020,855	651,724
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,035,461	\$ 1,020,855
SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION		
NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of building and assumption of debt	\$ -	\$ 3,701,615
Purchases of property and equipment in accounts payable	\$ 5,944	\$ -
Purchases of construction in progress in accounts payable	\$ 499,388	\$ -
Purchases of construction in progress through line of credit	\$ 143,074	\$ -
Cash paid during the year for interest	\$ 62,879	\$ 69,477

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016.

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).

Basis of Presentation

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. As of June 30, 2017 and 2016, the School had no temporarily restricted net assets.

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, 2017 and 2016, the School had no permanently restricted net assets.

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

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

Revenue

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.

Operating Funds from the Indiana Department of Education amounted to 78% and 80% of the School's support and revenue for the years ended June 30, 2017 and 2016, 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.

Use of 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.

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.

The School maintains its cash and cash equivalents at one financial institution which, at times, may exceed federally insured limits. At June 30, 2017 and 2016 the balance of deposits exceeded FDIC limits by approximately \$807,000 and \$797,000, respectively.

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

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, 2017 and 2016, 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. 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 \$225,373 and \$196,294 for the years ended June 30, 2017 and 2016, respectively.

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

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

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.

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, 2017 and 2016 was \$8,994 and \$9,160, respectively.

Income Taxes

The School is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) as other than a private foundation 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.

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

2. GRANTS RECEIVABLE

Grants receivable for the years ended June 30, 2017 and 2016 represent amounts due from the Indiana Department of Education relating to the following grants:

	<u>2017</u>	<u>2016</u>
Title I	\$ 29,303	\$ 19,051
Title II	20,466	21,550
Special Education	2,260	1,449
Early Intervention	-	2,043
Formative Assessment	5,697	-
	<hr/>	<hr/>
TOTAL GRANTS RECEIVABLE	\$ 57,726	\$ 44,093
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3. OPERATING LEASES

The School has a number of operating lease agreements with various monthly payments expiring through 2023. During the year ended June 30, 2017 and 2016, \$64,150 and \$64,149, respectively, was expensed related to the leases.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2017 are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 59,991
2019	56,381
2020	34,750
2021	28,995
2022	28,995
Thereafter	4,833
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TOTAL MINIMUM LEASE PAYMENTS	\$ 213,945
	<hr/> <hr/>

4. 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.

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

4. PENSION PLAN (Continued)

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, 2017 and 2016, the School contributed \$274,318 and \$239,053, 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.

5. CONSTRUCTION LOAN

During 2017, the School entered into a construction loan agreement of \$1,500,000 for building renovations. The construction loan matures on October 30, 2027. Interest is payable monthly beginning April 30, 2017 at 5.25% for seven months. Beginning November 30, 2017, the loan is payable in monthly installments of \$16,150, including interest at 5.25%. Borrowings against the construction loan are secured by school building. At June 30, 2017, \$143,074 was outstanding on the construction loan. The outstanding commitment on the construction loan at June 30, 2017 was \$1,356,926.

6. NOTES PAYABLE

At June 30, 2017 and 2016, notes payable consisted of the following:

	<u>2017</u>	<u>2016</u>
Loan payable in monthly installments of \$6,375, 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.	\$ 81,184	\$ 153,408
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.	535,600	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.	2,884,735	3,036,564
Total notes payable	3,501,519	3,774,214
Less: Current maturities	(429,532)	(266,926)
AMOUNT DUE AFTER ONE YEAR	<u>\$ 3,071,987</u>	<u>\$ 3,507,288</u>

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

6. NOTES PAYABLE (Continued)

The aggregate minimum principal maturities of long-term debt obligations are as follows for the years ended June 30, 2017:

<u>Year</u>	<u>Amount</u>
2018	\$ 429,532
2019	363,566
2020	359,798
2021	362,605
2022	365,518
Thereafter	<u>1,620,500</u>
TOTAL	<u>\$ 3,501,519</u>

Total interest expense during the years ended June 30, 2017 and 2016 was \$65,081 and \$81,058, respectively.

7. COMMITMENTS

During 2017, the School entered into an agreement for the renovation of the third floor of the educational facility. As of June 30, 2017 the estimated costs and outstanding commitments for the third floor renovations is \$1,455,455 and \$599,852, respectively.

The school entered into an agreement for student's transportation that will expire on June 30, 2018. As of June 30, 2017 the estimated transportation cost under the contract for financial year 2018 was \$213,750.

8. SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through November 16, 2017, the date the financial statements were available to be issued.

On November 7, 2017, the School's Charter was renewed for an additional seven years effective July 1, 2018.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

SOUTHEAST NEIGHBORHOOD OF EXCELLENCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Service Expenses	Supporting Services			Total Expenses
	Academics	Management and General	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 2,945,224	\$ 279,703	\$ -	\$ 279,703	\$ 3,224,927
Instructional services	231,853	-	-	-	231,853
Information technology	74,702	6,496	-	6,496	81,198
Accounting services	-	66,323	-	66,323	66,323
Other outside services	63,441	45,816	-	45,816	109,257
Course materials/supplies	96,584	9,561	-	9,561	106,145
Nutritional support	333,584	1,410	-	1,410	334,994
Travel and entertainment	179	128	-	128	307
Vehicle/transportation expense	128,250	-	-	-	128,250
Rent and facilities	324,173	27,315	-	27,315	351,488
Depreciation and amortization	207,343	18,030	-	18,030	225,373
Interest expense	59,874	5,207	-	5,207	65,081
Insurance	40,045	3,881	-	3,881	43,926
Advertising expenses	8,994	-	-	-	8,994
Small equipment purchases	5,277	459	-	459	5,736
TOTAL FUNCTIONAL EXPENSES	\$ 4,519,523	\$ 464,329	\$ -	\$ 464,329	\$ 4,983,852

SOUTHEAST NEIGHBORHOOD OF EXCELLENCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

	Program Service Expenses	Supporting Services			Total Expenses
	Academics	Management and General	Fundraising	Total Supporting Services	
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
TOTAL FUNCTIONAL EXPENSES	\$ 3,944,717	\$ 389,481	\$ 28,894	\$ 402,671	\$ 4,363,092

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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 Controller General of the United States, the financial statements of Southeast Neighborhood School of Excellence, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 16, 2017.

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 16, 2017

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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, 2017. 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 Controller 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, 2017.

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 16, 2017

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	FY 2016-2017	\$ 98,159
National School Lunch Program	10.555	FY 2016-2017	<u>287,540</u>
Total for Child Nutrition Cluster			<u>385,699</u>
School Lunch Equipment Grant	10.579	FY 2016-2017	5,240
Fresh Fruits and Vegetable Program	10.582	FY 2016-2017	<u>21,604</u>
Total for U.S. Department of Agriculture			<u>412,543</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education			
Special Education Cluster (IDEA):			
Special Education Grants to States	84.027	2016-2018	<u>81,982</u>
Title I, Part A:			
Title I Grants to Local Educational Agencies	84.010*	16-9485	107,865
		17-9485	<u>474,819</u>
		Total 84.010	<u>582,684</u>
Improving Teacher Quality State Grants	84.367	2014-2016	1,500
		2015-2017	22,388
		2016-2018	<u>37,769</u>
		Total 84.367	<u>61,657</u>
School Improvement Grants	84.377	2015-2016	10,000
		2016-2017	<u>7,798</u>
		Total 84.377	<u>17,798</u>
Title III, Part A:			
English Language Acquisition State Grants	84.365	2016-2018	<u>7,507</u>
Total U.S. Department of Education			<u>751,628</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,164,171</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, 2017

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. under programs of the federal government for the year ended June 30, 2017. 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).

2. BASIS OF ACCOUNTING

The Schedule 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 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. The School has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance. Pass-through entity numbers are presented where available.

3. OTHER

The School did not receive any federal insurance nor have any federal loans with continuing compliance. Also, the School did not provide funds to any subrecipients or receive any non-cash assistance for the year ended June 30, 2017.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

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(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

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

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I, Grants to Local Education Agencies

Dollar threshold used to distinguish
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee? Yes No

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

SECTION II – FINANCIAL STATEMENTS FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

No prior year audit findings.