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November 13, 2018

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, 2017 to June 30, 2018. 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, 2018 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.

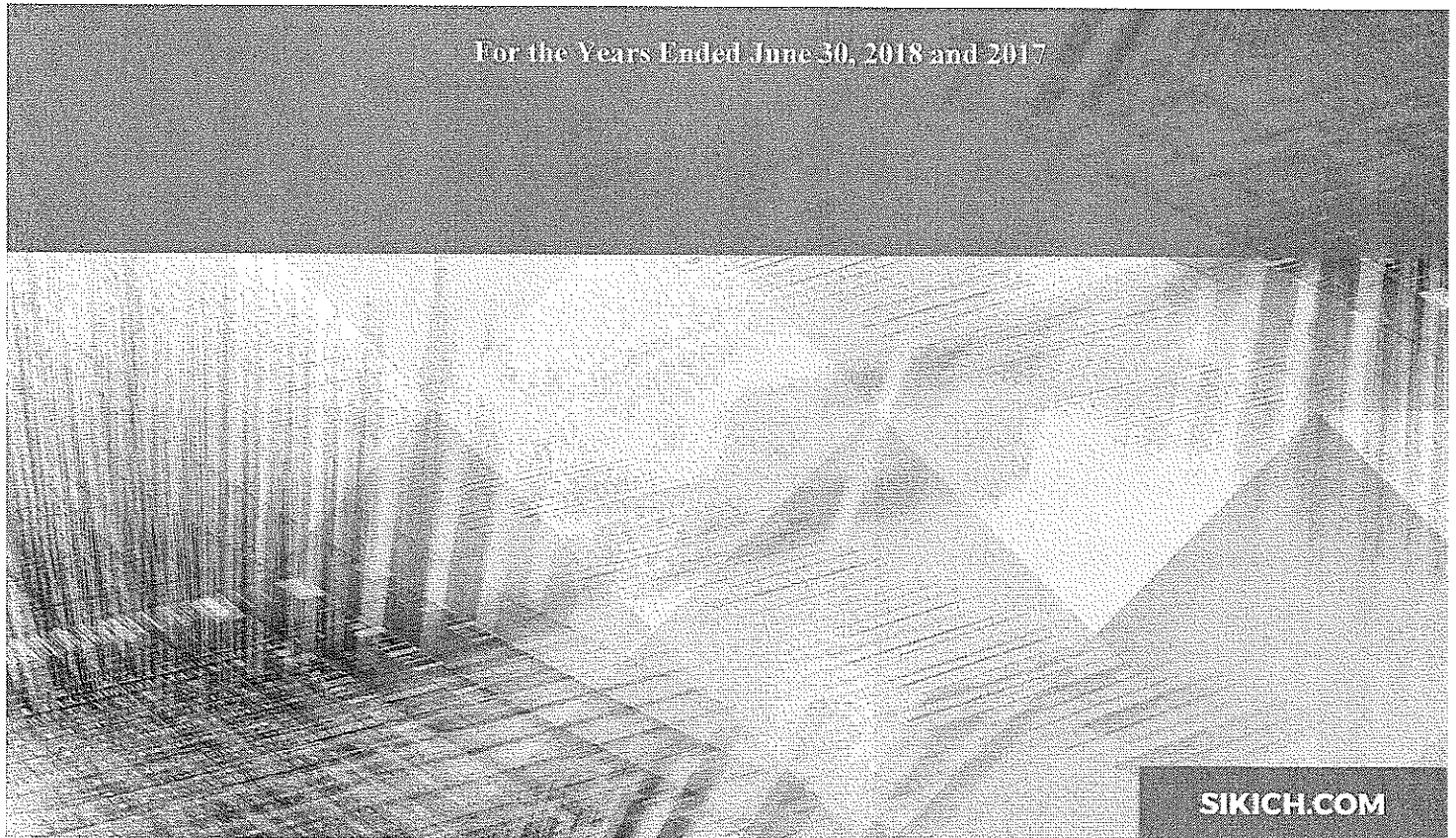
Paul D. Joyce
Paul D. Joyce, CPA
State Examiner



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

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION
AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended June 30, 2018 and 2017



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SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.
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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, 2018 and 2017, 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, 2018 and 2017, 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

Other Information

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 October 17, 2018, 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
October 17, 2018

FINANCIAL STATEMENTS

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30,

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,241,347	\$ 1,035,461
Grants receivable	54,371	57,726
Prepaid expenses	50,677	52,275
Total current assets	<u>1,346,395</u>	<u>1,145,462</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	621,780	547,680
Computer hardware	275,493	221,798
Computer software	53,937	53,937
Building	5,974,569	4,291,429
Textbooks and education	240,185	226,897
Construction in progress	161,614	1,033,712
	<u>7,327,578</u>	<u>6,375,453</u>
Less: Accumulated depreciation	<u>1,293,820</u>	<u>1,047,075</u>
Total property and equipment, net	<u>6,033,758</u>	<u>5,328,378</u>
TOTAL ASSETS	<u><u>\$ 7,380,153</u></u>	<u><u>\$ 6,473,840</u></u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS	2018	2017
CURRENT LIABILITIES		
Accounts payable	\$ 128,031	\$ 470,282
Notes payable - current	490,974	429,532
Deferred revenue	80,696	9,780
Accrued payroll	292,986	222,138
Accrued paid time off	19,353	19,300
Accrued interest	38	18,179
Accrued retainage	-	95,066
Total current liabilities	1,012,078	1,264,277
LONG-TERM LIABILITIES		
Notes payable - long-term	4,008,341	3,215,061
Total long-term liabilities	4,008,341	3,215,061
Total liabilities	5,020,419	4,479,338
NET ASSETS		
Unrestricted	2,359,734	1,994,502
Total net assets	2,359,734	1,994,502
TOTAL LIABILITIES AND NET ASSETS	\$ 7,380,153	\$ 6,473,840

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30,

	<u>2018</u>	<u>2017</u>
UNRESTRICTED REVENUES AND SUPPORT		
State support	\$ 4,413,656	\$ 4,018,186
Grant revenue	1,185,273	1,164,220
School lunch program	426,918	408,053
Contributions and donations	24,929	44,422
Other revenue	21,575	23,637
In-kind revenue	15,000	-
Student fees	474	1,978
	<u>6,087,825</u>	<u>5,660,496</u>
PROGRAM AND SUPPORTING SERVICE EXPENSES		
Program services	5,193,068	4,519,523
Supporting services:		
General and administrative	529,525	464,329
	<u>5,722,593</u>	<u>4,983,852</u>
CHANGE IN UNRESTRICTED NET ASSETS	365,232	676,644
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>1,994,502</u>	<u>1,317,858</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 2,359,734</u>	<u>\$ 1,994,502</u>

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 365,232	\$ 676,644
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	251,391	225,373
Decrease (increase) in:		
Grants receivable	3,355	(13,633)
Prepaid expenses	1,598	(4,752)
Increase (decrease) in:		
Accounts payable	(421,908)	(128,565)
Deferred revenue	70,916	9,780
Accrued payroll	70,848	31,260
Accrued paid time off	53	1,875
Accrued interest	(18,141)	6,598
Accrued retainage	(95,066)	95,066
Net cash and cash equivalents provided by operating activities	<u>228,278</u>	<u>899,646</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(254,138)</u>	<u>(612,345)</u>
Net cash and cash equivalents used by investing activities	<u>\$ (254,138)</u>	<u>\$ (612,345)</u>

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

(Continued)	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt borrowings	\$ 733,950	\$ -
Long-term debt repayments	(502,204)	(272,695)
Net cash and cash equivalents provided (used) by financing activities	231,746	(272,695)
NET INCREASE IN CASH AND CASH EQUIVALENTS	205,886	14,606
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,035,461	1,020,855
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,241,347	\$ 1,035,461
SUPPLEMENTAL DISCLOSURES ON CASH FLOW INFORMATION		
NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchases of property and equipment in accounts payable	\$ 32,946	\$ 5,944
Purchases of construction in progress in accounts payable	\$ 46,711	\$ 499,388
Purchases of construction in progress through long-term debt	\$ 622,976	\$ 143,074
Cash paid during the year for interest	\$ 116,570	\$ 62,879
Contributions of property and equipment	\$ 15,000	\$ -

See accompanying notes to financial statements.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, 2025. There were no fees paid to the Sponsor for the years ended June 30, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017, 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 79% and 78% of the School's support and revenue for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 the balance of deposits exceeded FDIC limits by approximately \$1,124,000 and \$807,000, 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, 2018 and 2017, 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 \$251,391 and \$225,373 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 was \$10,029 and \$8,994, 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)

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, "Revenue from Contracts with Customers," as amended by ASU 2015-14, which supersedes or replaces nearly all GAAP revenue recognition guidance. This standard establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. ASU 2014-09, as amended, is effective for certain Not-for-profit entities for annual reporting periods beginning after December 15, 2017 including interim reporting periods within that reporting period. The School is currently assessing the impact of this new standard.

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU 2016-02 is effective for annual periods beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020 and requires a modified retrospective approach to adoption. The School is currently assessing the impact of this new standard.

The Financial Accounting Standards Board (FASB) has issued ASU No. 2016-14, "Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities". ASU No. 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The School is currently evaluating the impact of this new standard.

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

2. GRANTS RECEIVABLE

Grants receivable for the years ended June 30, 2018 and 2017 represent amounts due from the Indiana Department of Education relating to the following grants:

	<u>2018</u>	<u>2017</u>
Title I	\$ 27,475	\$ 29,303
Title II	25,151	20,466
Title III	576	-
Nutrition Reimbursement	1,169	-
Special Education	-	2,260
Formative Assessment	-	5,697
TOTAL GRANTS RECEIVABLE	\$ 54,371	\$ 57,726

3. OPERATING LEASES

The School has a number of operating lease agreements with various monthly payments expiring through fiscal year 2023. During the year ended June 30, 2018 and 2017, \$57,545 and \$64,150, respectively, was expensed related to the leases.

The future minimum rental payments required under the operating leases for the years subsequent to June 30, 2018 are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 49,456
2020	44,535
2021	32,806
2022	28,995
2023	4,833
TOTAL MINIMUM LEASE PAYMENTS	\$ 160,625

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, 2018 and 2017, the School contributed \$317,703 and \$274,318, 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. NOTES PAYABLE

At June 30, 2018 and 2017, notes payable consisted of the following:

	<u>2018</u>	<u>2017</u>
Loan payable in monthly installments of \$6,375, including interest computed at 3.5%, due in full due at maturity on July 30, 2018. Secured by all property and assets.	\$ 12,692	\$ 81,184
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.	484,556	535,600
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.	2,581,079	2,884,735
Bank loan payable in annual payments of \$16,150 beginning November 2017, including interest computed at 5.25%, through maturity on October 30, 2027. Secured by the school building.	1,420,988	143,074
Total notes payable	4,499,315	3,644,593
Less: Current maturities	(490,974)	(429,532)
AMOUNT DUE AFTER ONE YEAR	<u>\$ 4,008,341</u>	<u>\$ 3,215,061</u>

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

5. NOTES PAYABLE (Continued)

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

<u>Year</u>	<u>Amount</u>
2019	\$ 490,974
2020	487,288
2021	497,261
2022	507,488
2023	512,910
Thereafter	<u>2,003,394</u>
TOTAL	<u>\$ 4,499,315</u>

Total interest expense during the years ended June 30, 2018 and 2017 was \$86,450 and \$65,081, respectively.

6. COMMITMENTS

During fiscal year 2018, the School entered into an agreement for the renovation of restrooms in the educational facility. As of June 30, 2018, the estimated costs and outstanding commitments for the third floor renovations is \$91,832.

7. DONATED SERVICES AND IN-KIND CONTRIBUTIONS

The School received contributed professional services and donated equipment related to the new playground during the years ending June 30, with a fair market value on the dates of donation as follows:

	<u>2018</u>	<u>2017</u>
General contractor services	\$ 9,000	\$ -
Equipment	<u>6,000</u>	<u>-</u>
TOTAL	<u>\$ 15,000</u>	<u>\$ -</u>

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

8. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after year end but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at year end, including estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at year but arose after that date (that is, non-recognized subsequent events).

In preparing these financial statements, the School has evaluated subsequent events and transactions for potential recognition or disclosure through October 17, 2018, the date the financial statements were available to be issued. The School determined there were no significant non-recognized subsequent events through that date.

OTHER REPORTS AND SUPPLEMENTARY INFORMATION

SOUTHEAST NEIGHBORHOOD OF EXCELLENCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Service Expenses	Supporting Services				Total Expenses
	Academics	Management and General		Cost of Sales	Total Supporting Services	
		Fundraising				
Salaries and benefits	\$ 3,439,527	\$ 318,260	\$ -	\$ -	\$ 318,260	\$ 3,757,787
Instructional services	283,607	1,174	-	-	1,174	284,781
Information technology	47,937	4,168	-	-	4,168	52,105
Accounting services	-	82,567	-	-	82,567	82,567
Other outside services	38,895	53,819	-	-	53,819	92,714
Course materials/supplies	100,047	5,507	-	-	5,507	105,554
Nutritional support	343,887	1,207	-	-	1,207	345,094
Travel and entertainment	254	280	-	-	280	534
Vehicle/transportation expense	207,000	-	-	-	-	207,000
Rent and facilities	361,819	30,593	-	-	30,593	392,412
Depreciation and amortization	231,580	19,811	-	-	19,811	251,391
Interest expense	79,534	6,916	-	-	6,916	86,450
Insurance	45,410	4,481	-	-	4,481	49,891
Advertising expenses	10,029	-	-	-	-	10,029
Small equipment purchases	3,542	742	-	-	742	4,284
TOTAL FUNCTIONAL EXPENSES	\$ 5,193,068	\$ 529,525	\$ -	\$ -	\$ 529,525	\$ 5,722,593

SOUTHEAST NEIGHBORHOOD OF EXCELLENCE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Service Expenses	Supporting Services			Total Expenses
		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

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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, 2018, 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 October 17, 2018.

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
October 17, 2018

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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, 2018. 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, 2018.

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
October 17, 2018

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Education			
Child Nutrition Cluster:			
School Breakfast Program	10.553	FY 2017-2018	\$ 104,195
National School Lunch Program	10.555	FY 2017-2018	298,155
Fresh Fruit and Vegetable Program	10.582	FY 2017-2018	22,924
Summer Food Service Program for Children	10.559	FY 2017-2018	1,169
Total for U.S. Department of Agriculture			<u>426,443</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	2,245
		2017-2019	94,487
		2017-2019	1,734
		Total 84.027	<u>98,466</u>
Title I, Part A:			
Title I Grants to Local Educational Agencies	84.010*	17-9485	66,380
		18-9485	488,238
		Total 84.010	<u>554,618</u>
Title II, Part A:			
Supporting Effective Instruction State Grants	84.367	2015-2017	2,838
		2016-2018	13,670
		2017-2019	38,173
		Total 84.367	<u>54,681</u>
School Improvement Grants	84.377	2016-2017	37,202
		Total 84.377	<u>37,202</u>
Title III, Part A:			
English Language Acquisition State Grants	84.365	2016-2018	3,068
		2017-2019	6,586
		Total 84.365	<u>9,654</u>
Total U.S. Department of Education			<u>754,621</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,181,064</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, 2018

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, 2018. 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, 2018.

SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

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, 2018

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.