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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

December 9, 2020

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

We have reviewed the audit report of Southeast Neighborhood School of Excellence, Inc., which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2019 to June 30, 2020. 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, 2020 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report on pages 19-20. Please see the Schedule of Findings and Questioned Costs for complete details related to the finding. Management's Corrective Action Plan appears on page 21.

In our opinion, Donovan CPAs prepared the audit report in accordance with guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner

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

FINANCIAL STATEMENTS  
Together with Independent Auditors' Report

For the Years Ended June 30, 2020 and 2019



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# Donovan CPAs

## *Independent Auditors' Report*

The Board of Directors  
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., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

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**[www.cpadonovan.com](http://www.cpadonovan.com)**

**Avon** | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

**Indianapolis** | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

## **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, 2020 and 2019, and the changes in its net assets, functional expenses, and cash flows for the years 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 Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, 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 10, 2020 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 solely 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 the effectiveness of 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.

DONOVAN



Indianapolis, Indiana  
November 10, 2020

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

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,630,339	\$ 1,008,290
Grants receivable	94,774	97,413
Prepaid expenses	<u>40,868</u>	<u>67,473</u>
<i>Total current assets</i>	<u>1,765,981</u>	<u>1,173,176</u>
<b>PROPERTY AND EQUIPMENT</b>		
Building	6,217,385	6,197,839
Furniture and equipment	624,757	532,559
Textbooks and education materials	194,399	194,399
Computer software	52,637	47,056
Less: accumulated depreciation	<u>(1,420,129)</u>	<u>(1,172,821)</u>
<i>Property and equipment, net</i>	<u>5,669,049</u>	<u>5,799,032</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,435,030</u></u>	<u><u>\$ 6,972,208</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 497,231	\$ 487,288
Accounts payable and accrued expenses	374,085	327,371
Refundable advances	<u>49,692</u>	<u>63,478</u>
<i>Total current liabilities</i>	921,008	878,137
<b>NOTES PAYABLE, NET OF CURRENT PORTION</b>	<u>3,024,005</u>	<u>3,520,866</u>
<i>Total liabilities</i>	3,945,013	4,399,003
<b>NET ASSETS, WITHOUT DONOR RESTRICTIONS</b>	<u>3,490,017</u>	<u>2,573,205</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 7,435,030</u></u>	<u><u>\$ 6,972,208</u></u>

See independent auditors' report and accompanying notes to the financial statements

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

**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**

**For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 4,694,961	\$ 4,480,451
Grant revenue	1,661,566	1,608,620
CARES Act funding	764,100	-
Contributions	37,463	44,975
Other	2,934	1,060
	<u>7,161,024</u>	<u>6,135,106</u>
<i>Total revenue and support</i>		
	<u>7,161,024</u>	<u>6,135,106</u>
<b>EXPENSES</b>		
Program services	5,511,397	5,148,497
Management and general	732,815	700,582
	<u>6,244,212</u>	<u>5,849,079</u>
<i>Total expenses</i>		
	<u>6,244,212</u>	<u>5,849,079</u>
<b>CHANGE IN NET ASSETS</b>	916,812	286,027
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,573,205</u>	<u>2,287,178</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 3,490,017</u>	<u>\$ 2,573,205</u>

See independent auditors' report and accompanying notes to the financial statements

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

**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Years Ended June 30, 2020 and 2019**

	2020			2019		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 2,950,012	\$ 351,137	\$ 3,301,149	\$ 2,587,777	\$ 349,460	\$ 2,937,237
Employee benefits	758,050	93,398	851,448	700,383	91,876	792,259
Professional services	359,516	167,886	527,402	339,598	147,528	487,126
Food costs	319,329	-	319,329	355,299	-	355,299
Depreciation	247,308	-	247,308	272,943	-	272,943
Occupancy	213,445	-	213,445	209,558	-	209,558
Student transportation	209,459	-	209,459	228,398	-	228,398
Equipment	184,604	-	184,604	190,679	-	190,679
Classroom and office supplies	119,380	10,867	130,247	103,292	12,188	115,480
Interest	108,273	-	108,273	119,777	-	119,777
Insurance	-	56,119	56,119	-	52,674	52,674
Staff development	40,017	-	40,017	36,948	1,680	38,628
Advertising	-	31,123	31,123	-	19,669	19,669
Travel and meetings	296	60	356	152	369	521
Loss on disposal of property and equipment	-	-	-	-	1,925	1,925
Other	1,708	22,225	23,933	3,693	23,213	26,906
<i>Total functional expenses</i>	<u>\$ 5,511,397</u>	<u>\$ 732,815</u>	<u>\$ 6,244,212</u>	<u>\$ 5,148,497</u>	<u>\$ 700,582</u>	<u>\$ 5,849,079</u>

See independent auditors' report and accompanying notes to the financial statements

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

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 916,812	\$ 286,027
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	247,308	272,943
Loss on disposal of property and equipment	-	1,925
Changes in certain assets and liabilities:		
Grants receivable	2,639	(43,042)
Prepaid expenses	26,605	(16,796)
Accounts payable and accrued expenses	46,714	(33,380)
Refundable advances	<u>(13,786)</u>	<u>(17,218)</u>
 <i>Net cash provided by operating activities</i>	 1,226,292	 450,459
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(117,325)	(192,355)
<b>FINANCING ACTIVITIES</b>		
Principal repayments on notes payable	<u>(486,918)</u>	<u>(491,161)</u>
<b>NET CHANGE IN CASH</b>	622,049	(233,057)
<b>CASH, BEGINNING OF YEAR</b>	<u>1,008,290</u>	<u>1,241,347</u>
<b>CASH, END OF YEAR</b>	<u>\$ 1,630,339</u>	<u>\$ 1,008,290</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 108,273	\$ 119,815

See independent auditors' report and accompanying notes to the financial statements

# SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2020 and 2019

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Southeast Neighborhood School of Excellence, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates as a public charter school under Indiana Code 20-24. The School is sponsored by the Office of Education Innovation of the Mayor of the City of Indianapolis. The charter is effective through June 30, 2025 and is renewable thereafter by mutual consent. The School served approximately 600 students in grades kindergarten through eight during the 2019-2020 school year.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions, which include unrestricted resources that are available for the operating objectives of the School; and
- net assets with donor restrictions, which represent resources restricted by donors for specific time or purpose.

As of June 30, 2020 and 2019, the School had only net assets without donor restrictions

Basis of Accounting and Use of Estimates – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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 other public schools in the same geographic areas. Funding from the State of Indiana is based on enrollment and is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

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

The School has elected to defer implementation of Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes the implementation of ASU 2014-09 will not significantly affect how the School reports revenue.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2020 and 2019.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs and legislation enacted by the State of Indiana. The School believes it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2020 and 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and small equipment purchases with a unit cost of less than \$1,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Building	40 years
Furniture and equipment	3 years
Textbooks and education materials	4 years
Computer software	3 years

Taxes on Income – Southeast Neighborhood School of Excellence, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2020 and 2019, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. Tax years ended after 2016 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 10, 2020, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

**NOTE 2 - REFUNDABLE ADVANCE**

The School has been awarded grants to provide educational instruction that are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. The School had refundable advances in excess of expenditures of \$49,692 and \$63,478 as of June 30, 2020 and 2019, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2020 and 2019**

**NOTE 3 - CARES ACT FUNDING**

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act which includes the Paycheck Protection Program (“PPP”) administered through the Small Business Administration. The proceeds from PPP notes payable can be used for costs related to payroll, employee healthcare, rent, and utilities. On April 21, 2020, the School was granted a loan from Old National Bank in the amount of \$764,100, pursuant to the PPP under Division A, Title I of the CARES Act. The note matures on April 21, 2022 and bears interest at a rate of 1.00%. Under the terms of the PPP, the loan funds will be forgiven if they are used for qualifying expenses as described in the CARES Act. The School has evaluated the expenses to which these funds were applied through June 30, 2020 and has determined the loan requirements will be met and the loan will be forgiven in full. The School has elected to recognize the funds as a contribution in accordance with FASB ASC 958-605 by reflecting the amount of funds expended as of the year ended June 30, 2020 as revenue.

**NOTE 4 - NOTES PAYABLE**

Notes payable consisted of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Mortgage loan payable to Old National Bank, payable in monthly installments of \$6,310 including interest at 4.75% per annum through February 2026, secured by School facilities.	\$ 374,857	\$ 430,999
Common School Loan payable to State Board of Education, payable in semi-annual installments of \$151,828 including interest at 1% per annum through July 2026, secured by School facilities.	1,973,767	2,277,423
Mortgage loan payable to Old National Bank, payable in monthly installments of \$16,150 including interest at 5.25% per annum through October 2027, secured by School facilities.	<u>1,172,612</u>	<u>1,299,732</u>
	3,521,236	4,008,154
Less: current portion	<u>(497,231)</u>	<u>(487,288)</u>
Long-term portion	\$ <u>3,024,005</u>	\$ <u>3,520,866</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2020 and 2019**

**NOTE 4 - NOTES PAYABLE, Continued**

Principal maturities of notes payable are as follows for the years ending June 30:

2021	\$	497,231
2022		507,488
2023		512,910
2024		529,523
2025		541,599
Thereafter		<u>932,485</u>
	\$	<u>3,521,236</u>

The mortgage notes payable to Old National Bank contain a financial covenant requiring the School to maintain an annual cash flow coverage ratio of not less than 1.10 to 1.00. The School was out of compliance with the covenant as of June 30, 2020 and obtained a waiver from Old National Bank granting an exception for the violation. The School was in compliance with the covenant as of June 30, 2019.

**NOTE 5 - LEASES**

The School leases certain equipment under operating leases with various monthly payments expiring through fiscal year 2023, including one lease signed shortly after June 30, 2020. Total expense under these operating leases was \$37,161 and \$68,680 for the years ended June 30, 2020 and 2019, respectively.

Future minimum lease payments for all operating leases with initial non-cancellable lease terms in excess of one year are as follows for the years ending June 30:

2021	\$	54,196
2022		51,412
2023		14,704

**NOTE 6 - RETIREMENT PLANS**

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 10.5% of compensation for electing teaching faculty to TRF and 14.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2019 (the latest year reported), both TRF and PERF were more than 80% funded. Retirement plan expense under all plans was \$304,666 and \$314,717 for the years ended June 30, 2020 and 2019, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2020 and 2019**

**NOTE 7 - RISKS AND UNCERTAINTIES**

The School provides educational 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, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2020 and 2019, all of the receivable balance was due from the State of Indiana. In addition, deposits maintained at Old National Bank are insured up to the FDIC insurance limit of \$250,000. Funds held at this financial institution exceed the FDIC insurance limit.

**NOTE 8 - LIQUIDITY**

The School's financial assets include cash and grants receivable totaling \$1,725,113 and \$1,105,703 as of June 30, 2020 and 2019, respectively, all of which are available to meet cash needs for general expenditures within a year.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE 9 - FUNCTIONAL EXPENSE REPORTING**

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2020**

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 88,922
COVID-19 - School Breakfast Program	10.553		8,868
National School Lunch Program			
National School Lunch Fund	10.555		243,522
COVID-19 - National School Lunch Fund	10.555		20,818
Commodities - noncash assistance	10.555		14,962
Summer Food Service Program for Children	10.559		<u>41,121</u>
<i>Total Child Nutrition Cluster</i>			418,213
Fresh Fruit and Vegetable Program	10.582		17,899
Child Nutrition Discretionary Grants Limited Availability	10.579		<u>12,662</u>
<i>Total U.S. Department of Agriculture</i>			<u>448,774</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A; Grants to Local Educational Agencies	84.010	18611-001-PN01	388,266
Title II, Part A; Supporting Effective Instruction State Grants	84.367	7000-S367A180013	40,380
Title III, Part A; English Language Acquisition State Grants	84.365	0118-098-PN01	3,940
Student Support and Academic Enrichment Program	84.424	2018-424-319	19,193
Special Education Cluster			
Special Education Preschool Grants	84.173	19619-502-PN01	1,825
Special Education Grants to States	84.027	19611-502-PN01	<u>106,063</u>
<i>Total U.S. Department of Education</i>			<u>559,667</u>
<i>Total federal awards expended</i>			<u><u>\$ 1,008,441</u></u>

See independent auditors' report and accompanying notes to this schedule

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2020**

**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 “School”) under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented 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”). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, change in net assets, functional expenses, or cash flows of the School.

**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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Noncash assistance is reported in the period it is received by the School using values reported by the pass-through entity.

**NOTE 3 - INDIRECT COST RATE**

The School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



# Donovan CPAs

## **INDEPENDENT AUDITORS' 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**

The Board of Directors  
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. (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2020.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School'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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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.

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[www.cpadonovan.com](http://www.cpadonovan.com)

Avon | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Indianapolis | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

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Indianapolis, Indiana  
November 10, 2020



# Donovan CPAs

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *THE UNIFORM GUIDANCE*

The Board of Directors  
Southeast Neighborhood School of Excellence, Inc.

### **Report on Compliance for Each Major Federal Program**

We have audited Southeast Neighborhood School of Excellence, Inc.'s (the "School") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the School's major federal programs for the year ended June 30, 2020. The School's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

### **Management's Responsibility**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the School'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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and 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 the School'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 the School's compliance.

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## **Opinion on Each Major Federal Program**

In our opinion, the School 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, 2020.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-01. Our opinion on each major federal program is not modified with respect to this matter.

The School's response to the noncompliance finding identified in our audit is described in the corrective action plan on page 21. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control over Compliance**

Management of the School 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 the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 School'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 identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-01, that we consider to be a material weakness.

The School's response to the internal control over compliance finding identified in our audit is described in the corrective action plan on page 21. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana  
November 10, 2020

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2020**

**I. Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major programs:	
• Material weakness identified?	Yes
• Significant deficiency identified?	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 2 CFR 200.516(a)?	Yes
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster
10.555	School Breakfast Program
10.559	National School Lunch Program
	Summer Food Service Program for Children

Dollar threshold use to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**II. Financial Statement Findings**

No matters are reportable.

**SOUTHEAST NEIGHBORHOOD SCHOOL OF EXCELLENCE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2020**

**III. Federal Award Findings and Questioned Costs**

FINDING 2020-01 CASH MANAGEMENT  
MATERIAL WEAKNESS

Criteria

Per 7 CFR 210.14(b) and 7 CFR 220.7(e)(1)(iv), the “school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency”.

Condition

Based on the School’s expense reporting, a three months average of expenditures would be approximately \$116,000. The School carried a balance in excess of the 3 months average of expenditures in nine out of twelve months, including a balance of approximately \$186,000 as of June 30, 2020.

Cause

The School has not properly monitored the balance of these funds to make sure funds were expended in a manner to allow for compliance with federal guidelines.

Effect

This material weakness in internal control resulted in the School having an excessive cash balance in its meal program funds, which is not in compliance with 7 CFR 210.14(b) and 7 CFR 220.7(e)(1)(iv).

Recommendation

We recommend the School develop internal controls to allow for closer monitoring of the balance of these funds. We also recommend the School proactively communicate the cash management finding to the Indiana Department of Education to discuss a remedial plan of action.

Views of Responsible Officials

The School’s Corrective Action Plan is included on page 21.



Southeast Neighborhood School of Excellence  
1601 S. Barth Avenue  
Indianapolis, Indiana 46203

Phone: 317-423-0204 Fax: 631-4401  
[www.senseindy.org](http://www.senseindy.org)

On August 8, 2020 the information below was sent to the Indiana Dept. of Education, Office and School and Community Nutrition via an email. On August 13, 2020 the Indiana Dept. of Education, Office of School and Community Nutrition approved our Annual Financial Report.

There were a few factors that contributed to our food service account balance exceeding the 3 months operating expense balance.

1. We went through the RFP process last year and began service with a new food service provider starting in June. The new provider has not billed us for June or July SFSP services at the time of the AFR report. Our Accounts Payable balance on the report reflects 2 months of service (\$14,552.28) while our Accounts Receivable only reflects 1 month of service \$11,551.50, resulting in a negative -\$3,000.78 balance. Moving forward with the new service provider we will request and process their invoices in a timely manner.
2. The Southeast Neighborhood School of Excellence, Inc. School Corp. 9485 received Payroll Protection Program (PPP) funds during the 4<sup>th</sup> quarter of the school year. We used the PPP funds to pay food service employees for 4 payrolls during the 2019 – 2020 school year. An average payroll with benefits is \$1,000. Normally the \$4,000 (\$1,000 \*4) would have been expensed to the food service account. Moving forward we will use the food service account fund to pay these payroll costs.
3. During the 2020 – 2021 school year we will allocate 10% (based on square footage of the kitchen and cafeterias in ratio to the building) of the expenses for utilities, cleaning and cleaning supplies to the food service account. This amount would be approximately \$20,400. During the 2019 – 2020 school year we only expensed approximately \$9,000 to the food service account.
4. Finally, we had budgeted for and intended to purchase a new freezer and some storage shelving during the 4<sup>th</sup> quarter of 2019 – 2020. We were working with the new food service provider to determine what items they would need to provide the service. Then the COVID-19 hit and we delayed these purchases. These items will be purchased in the 2020 – 2021 school year. The estimated cost is \$12,000.

If you have any other questions, please do not hesitate to reach out to me.

Thank you for your prompt attention to this matter and review of our AFR.

Diane Jo Greaney

Treasurer

Southeast Neighborhood School of Excellence

317-423-0204 fax [317-631-4401dgreaney@senseindy.org](mailto:dgreaney@senseindy.org)